

MEDDLING IN MIDDLE EUROPE

Britain and the 'Lands Between'

1919–1925

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MEDDLING IN MIDDLE EUROPE

Britain and the 'Lands Between'

1919–1925

BY MIKLÓS LOJKÓ



Central European University Press
Budapest New York

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Published in 2006 by
Central European University Press

An imprint of the
Central European University Share Company
Nádor utca 11, H-1051 Budapest, Hungary
Tel: +36-1-327-3138 or 327-3000
Fax: +36-1-327-3183
E-mail: ceupress@ceu.hu
Website: www.ceupress.com

400 West 59th Street, New York NY 10019, USA
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ISBN 963 7326 37 5 cloth
978 963 7326 37 0

Library of Congress Cataloging-in-Publication Data

Lojko, Miklos.

Meddling in Middle Europe: Britain and the 'lands between' 1919–1925 / by
Miklos Lojko. — 1st ed.

p. cm.

Includes bibliographical references.

ISBN 9637326375

1. Europe, Eastern—Foreign relations—Great Britain. 2. Great Britain
—Foreign relations—Europe, Eastern. 3. Europe—Politics and government
—1918–1945. I. Title.

DJK45.G7L65 2005

327.41043'09'042—dc22

2005015363

Preprint by Attributum Stúdió, Budapest
Printed in Hungary by Akadémiai Nyomda, Martonvásár

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Acknowledgements

I have been encouraged and assisted by many generous individuals and institutions during my work on this study. While help from all sources is gratefully acknowledged, I can but name only a few of them here.

An earlier version of this book was completed as a doctoral thesis at the University of Cambridge. I owe monumental gratitude to Dr. Zara Steiner, New Hall, Cambridge, my Ph.D. supervisor, without whose extraordinary professional expertise and unfailing personal support none of this work could ever have been accomplished. My thesis examiners, Professor Robert Evans, Regius Professor of Modern History at the University of Oxford, and Dr. Anne Orde, formerly Senior Lecturer at the University of Durham, tested my discourse and reasoning with a highly appreciated grilling.

Pembroke College supported me unstintingly throughout the years of my residence in Cambridge and beyond. Without their financial and human generosity, I could not have undertaken this work. Dr. Geoffrey Edwards of Pembroke College unwaveringly supported me with advice and action regarding the multitudinous questions that arise in the life of a researcher in Cambridge. Without him, this work would not have been possible.

I am grateful for the two-year supplementary stipend which I received from the Soros Foundation in Budapest. The Stanley Baldwin Fund in Cambridge gave invaluable assistance by covering my considerable document copying charges incurred in the various archives.

Dr. Magda Ádám at the Institute of History of the Hungarian Academy of Sciences gave advice with a rare depth of knowledge on the history and languages of the peoples of Central Europe. I received encouragement in my work and assistance on research into interwar diplomat-

ic history from Dr. Tibor Zsuppán, then at the University of St Andrews. Dr. György Péteri of the University of Trondheim, Norway, kindly discussed with me aspects of his invaluable pioneering work on loan diplomacy in several e-mails. The financial sections of the book owe much to his achievements. Dr. Tibor Frank, Professor of History at Eötvös Loránd University, Budapest, friend, colleague, and former university teacher, rendered wise and elaborate comments on the history of international relations, gave continuous human support, and helped me in any way he could through the many years of work. George Kutash of James Cook University, Queensland, Australia encouraged me throughout my work, read parts of the work, and offered valuable comments. Beáta Gárdos, corporate economist in Budapest, provided eye-opening clarification in the matter of bond issues. Éva Figder, historian, earlier at the Institute of History of the Hungarian Academy of Sciences and later, until recently, on the staff of the Open Society Institute, Budapest, gave me valuable assistance with research in the Hungarian National Archives. Dr. Ágota Scharle, graduate of Linacre College, Oxford, later research analyst at the Hungarian Ministry of Finance, helped with proof-reading the whole text and rendered useful comment.

Henry Gillett and Sarah Millard, archivists of the Bank of England, assisted my research by an uncommon level professional and human attention including the occasional extension of the opening hours of the archives. Dr. John Fisher, then archivist of the Public Record Office, now Lecturer in International History at the University of the West of England, kindly invited me to give a talk at the PRO on a part of the manuscript, which resulted in substantial improvements to the text. Dr. Erika Garami, formerly of the Numismatics Department of the National Bank of Hungary kindly allowed access to manuscripts deposited with the National Bank of Hungary. I owe special debt to my colleagues at the School of English and American Studies of Eötvös Loránd University, Budapest, who allowed me to stay on unpaid leave for lengthy periods to complete my research.

It is impossible to overestimate the human and material support that I received from my family in Budapest.

Budapest, August 2005

Introduction

Even before the outbreak of the Great War, the British had already ceased to take a determined interest in the Austro-Hungarian Monarchy, which was understood to have become a pawn of Germany. However, as, towards the end of the war, Austria-Hungary sent peace-feelers while the subject nationalities rendered military assistance to the Allied cause, and Britain assumed a prominent role in peacemaking, the level of British involvement dramatically increased. The question arises whether the changes brought about by the war created a real transformation in the British attitude to the Central European region and its new successor states. Britain's role as victor and as one of the Great Powers at the Peace Conference suggested that it would play a key role. This expectation became especially important during the early part of the inter-war period, when the Americans decided to withdraw from the European scene, and while the Germans and the Soviets were also temporarily absent from the forums of international decision-making.

The present inquiry examines Britain's relations with Hungary, Czechoslovakia and Poland from the onset of the new European system to the conclusion of the Locarno treaties. It looks into these relations separately, and divides diplomacy from financial relations. The country-by-country approach reflects the way the British treated these countries. Poland's separation from Czechoslovakia and Hungary, which were monitored by the staff of the Central Department, and its assignment, along with Russia, to the Northern Department, indicates that the mental map of the Foreign Office retained some of the pre-war instincts. The Foreign Office never managed to adopt an overall strategy for the treatment of Central Europe during the inter-war period. In the early twenties, in-so-far as the policy had any coherence, it was affected by commercial inter-

ests and the desire to check rival French ambitions, and on a secondary level, by what was happening in the countries themselves.

The rationale for selecting Hungary, Czechoslovakia and Poland from possible alternative—representations of ‘Central,’ or ‘Middle,’ Europe—may require some discussion. There is no doubt that ‘Central Europe’ is an elusive concept, both geographically and politically, not to mention its cultural connotations. The burgeoning literature on this subject is testimony to the difficulties of arriving at any permanent definition.¹ In choosing the subtitle for the book I yielded to the temptation to co-opt Alan Palmer’s inimitable phrase: ‘the Lands Between,’ which catches the essence of the many shifting characterisations of the various groups of geographical and political entities that have been historically associated with the concept of Central or Middle Europe. It must be conceded on my part that the decision to concentrate on these three countries has amounted to something of a reading the future of the concept into the past. For centuries before the Enlightenment, only a North-South division of Europe had existed, more or less corresponding to the Protestant-Catholic fault-line, where the Europeanness of the Balkans was overshadowed from a Western perspective by Ottoman occupation and that of Russia by geographical and cultural remoteness, compounded by a mutual feeling of fear of the other. Following the Enlightenment and the Napoleonic Wars, ‘Western Europe’ emerged as the hothouse of civilisation, while the term ‘Eastern Europe’ became synonymous with backwardness and underdevelopment.² Centrality in Europe was first associated with the Germans who sought a respectable and idiosyncratic definition for their geographic and cultural spheres in the 19th century. Thus, the concept of *Mitteleuropa* appeared on the agenda of the Frankfurt National Assembly during the 1848 revolutions.³ In the meantime, in his landmark mid-19th century study *History of the Czech Nation in Bohemia and Moravia*, the Czech historian František Palacký also staked out the centre of Europe for the Czech nation. But while Palacký did not imply that the Czechs should use their position to integrate others, the German interpretation became increasingly associated with German leadership in the region. Eventually, the import of the word *Mitteleuropa* would become virtually co-extensive with Friedrich Naumann’s powerful polemic published under that title in 1915. Naumann, writing in the

midst of the First World War, called for the economic and political unity of Germany and Austria-Hungary, which would, in time, attract other peoples and countries to the East of the German-speaking lands to join as well. In the aftermath of the Great War such a concept could not possibly maintain relevance, let alone prestige, and later, in the light of the Nazi era, it may even be said to have become tarnished. Yet the publishing of *Mitteleuropa* made a definitive contribution to the conceptualisation of Central Europe. It is indicative of the changing perceptions as well as of a new reality that the British Foreign Office decided, in 1920, to establish a new territorial division called the Central European Department, which covered, among other countries, Germany, German-Austria, Czechoslovakia and Hungary (but not Poland).

With the emergence of new, non-German, nation states in the middle zone of Europe at the end of the First World War, it was inevitable that the Germanic character of the notion would be challenged. Most notably, Tomáš G. Masaryk, the President of Czechoslovakia, and the Slovak politician Milan Hodža hoped for intensive co-operation in the politico-economic and cultural sphere that took shape between the defeated Germany and Bolshevik Russia, which they labelled *Střední Evropa* (Central Europe). Moving beyond the vision of Palacký who had formulated no concept of Central Europe, the new Czechoslovak idea contemplated a separate entity or community of small states in the middle. While the Foreign Office retained Germany in its Central Department (which was difficult to avoid short of maintaining a 'German Department' on its own) and kept Poles out, and while the Hungarians and the Poles appeared less keen at the time than the Czechs and Slovaks to join in this self-perception, the common features of the lands between Germany and Russia (often without the Balkans) gradually gained recognition. As Jacques Rupnik concluded: '[t]he interwar concept was a Central Europe without Germany.'⁴

With hindsight, the idea of excluding Germany (which must have been uncomfortable reading for the millions of Germans inhabiting the new non-German states of Central Europe) appears unrealistic. Yet small nation status and founding membership in the 'New Europe' were among the necessary connotations of the concept in the interwar years. Within these parameters, Austria, in addition to the three non-German coun-

tries examined here, appears as a suitable candidate for discussion, and this is indeed the attitude taken, for instance, by Gábor Bátonyi in his ground-breaking study of Britain's policy towards Central Europe between the two world wars.⁵ Examining British policy towards Austria, Hungary, and Czechoslovakia, Bátonyi argues that '[s]ometimes Poland was also grouped with these countries, but Russian, German, and French designs made it virtually impossible for Poland to be integrated in a British-sponsored Central European bloc.'⁶ My own narrow definition of Central Europe is less motivated by the options mooted by the Foreign Office in the first half of the 1920s, or even by those of the Bank of England, which, during the same period, pursued a conscious policy of reviving, at least from an economic point of view, the pre-war commonwealth of the Habsburg lands. I have been more concerned with British policy towards a part of Europe which, consisting of old countries that were reincarnated in radically new circumstances, found themselves literally in the middle between Germany and Russia and which would become more and more associated with the passage of time. Austria, the rump of a dynastic empire with a declared policy to seek unification with Germany (only prevented from doing so through the express prohibition of the peace-makers) did not fit this pattern easily.

Later developments added further layers to our perception of the meaning of 'Central Europe.' After the Second World War, and especially following the end of the Cold War, (during which the significance of the idea of Central Europe had become considerably diminished), democratic Germany and Austria were re-admitted into the Central European notion, and what had been known as Central Europe between 1918 and 1938 turned into East-Central Europe. Yet the concept of the in-between has remained powerful. Poland, Czechoslovakia (latterly the Czech and Slovak republics separately) have remained, in Timothy Garton Ash's phrase, re-echoed by Piotr S. Wandycz, the 'heartlands' of the region.⁷ Lonnie R. Johnson also mentions these three countries as an obvious focus for studies on Central Europe.⁸ In 1990, Poland, Hungary and Czechoslovakia launched, in the medieval town of Visegrád, Hungary, an economic-political initiative for co-operation, and even though all have now entered the European Union, which lessens the significance of

sub-regional integration, the three (four since the split-up of Czechoslovakia) have often been referred to in the literature as 'The Visegrad'.⁹

Therefore, in the context of the immediate post-Versailles era, even if the new concept of Central Europe had not yet had time to sink into the contemporary political discourse, it is relevant and reasonable to examine the policy of Europe's leading power towards an emerging region, which had many common characteristics, such as inhabiting a contiguous piece of territory, sharing similar historical experiences, a dependence on Great Power support, and evolving towards converging patterns in the future. This is not to say that a different approach is not equally valid or useful, especially regarding the question of the inclusion of Austria in the 'Central Europe' of the interwar years. Even with a declared focus on the three countries I have chosen, limited references to Austrian affairs have been inevitable (as were references to Polish affairs in Gábor Bátonyi's study).

While the present work postulates a sense of common ground for Hungary, Czechoslovakia and Poland in the first half of the 1920s, it also recognises, or indeed discovers, that Britain's relations with each of these successor or revived states were distinctly different. This had a great deal to do both with the British role in their creation and with Great Power politics, but also with Britain's particular commercial and financial interests in the region. The differences also emerged because of the differing attitudes of the governments with which the British were dealing.

The relationship between Britain and the three states also has to be seen within the new ideological framework that emerged from the peace treaties. The importance placed on self-determination affected the thinking both of those responsible for the creation of the new state system and of those involved in its subsequent development. This radicalism, however, was never fully embraced by the permanent staff of the British Foreign Office. As the readers of *The New Europe* were told in October 1919, the 'nerves' of the former peacemakers 'no longer braced to meet every emergency, there has been many a relapse into indolence and flippancy.'¹⁰ The fact that Hungary was more well-known from the pre-war period, the lingering doubts about the correctness of its peace settlement, and the fact that Hungary could not afford to remain aloof from

western offers of help, unlike Czechoslovakia and Poland, gradually shifted British goodwill from the victorious successor states to the curiously anomalous regime in Budapest, ruled rather autocratically by 'an admiral without a navy.'

It was France that took the initiative in engaging Central Europe in schemes for wider security and maintained the momentum in the early twenties. The British were no match in this purely political contest. While political relations provide the framework of general considerations, it is in the realm of financial diplomacy where the British proved more consistent and constructive, and this is where the special concern of the present inquiry lies. The division between political and financial diplomacy is reflected in the dual structure of each of the main parts of the book. While the Foreign Office virtually ceased to initiate policy, the Department of Overseas Trade, operating under the shared aegis of the Foreign Office and the Board of Trade, as well as the Treasury maintained the momentum of official British interest first established immediately after the peace treaties. Their attention to the region made excellent sense at a time when traditional British markets were contracted and Central Europe's trade patterns had been disrupted.

The source of real dynamism, however, was the Bank of England, which developed an extraordinary new concept of using bankers either directly or through the channels of the League of Nations and the Reparation Commission to achieve its ostensibly non-political aims. British involvement in Central Europe was thus spearheaded from the unlikely source of Britain's independent central bank, the Bank of England, under its passionate and resourceful Governor, Montagu Norman. Through what may best be termed 'money diplomacy,' often requiring and receiving support from the Treasury and the Foreign Office, Norman pursued his own peculiar programme of 'anti-politics,' which was meant to benefit both Britain and Central Europe as a whole. This special undertaking is investigated on these pages, while strong doubts are raised as to the purely financial nature of the Bank of England's initiatives. Norman's plans for Czechoslovakia and Poland were resisted by the two victorious successor states, each of which insisted on preserving sovereign control over its financial administration. Hungary could not afford such resistance. The analysis of the apparently spectacular success of Norman's

loan operation in Hungary forms the longest and most detailed chapter of this study.

In none of these three cases was the British attitude static: it altered with changes of government in Britain, in relation to the shifting general diplomatic situation, and, to some extent, to developments inside the three Central European countries. Apart from Hungary, where the financial involvement was crucial, there emerges a picture of British disinterest and gradual contraction even before the conclusion of the Locarno treaties. What to many seemed, and still seems, to be the crowning achievement of the early post-war period, the Treaty of Locarno, as seen from a Central European perspective, represented a final abandonment of the policy of limited British interest in Central Europe. The Hungarians might have taken courage from the concessions granted to the defeated Germans at Locarno and from the thinly veiled discomfort of their rival, Czechoslovakia (though not from the forsaking of the Poles with whom they maintained friendly relations). Yet, after Locarno and the subsequent end of the British-organised League of Nations loan scheme, they also gradually abandoned the quest for a financial and economic, let alone political, partnership with Britain.

The number of books and articles on Britain's relations with the Central European region, and especially with these three countries is limited. More has been written about the connections between France and Central Europe. Robert J. W. Evans, Dušan Kováč, and Edita Ivaničková recently published an admirable collection of essays entitled *Great Britain and Central Europe 1867–1914*, which describes the Victorian and pre-war setting.¹¹ The collection of studies in *Großbritannien, die USA und die böhmischen Länder, 1848–1938*, edited by Eva Schmidt-Hartmann and Stanley B. Winters contains numerous excellent references to Britain's interwar relations with the Czechs, the Slovaks as well as the Poles, and I am indebted to the authors and editors of the volume. Gábor Báttonyi's work (developed from his earlier Oxford D. Phil. dissertation) has already been mentioned. This pioneering inquiry has helped my work in relevant areas. A considerable number of recent studies, particularly those written or edited by Anne Orde, Alice Teichova, Philip Cottrell and György Péteri, concentrate on the financial-commercial side, and have provided the framework for the financial sections. While use has been

made of these works and the general histories of the countries relevant to my discussion, for the most part, the present study relies on primary sources, such as the Foreign Office and Treasury files of the Public Record Office (recently renamed as The National Archives) at Kew, some British private collections material from the Hungarian National Archives, and above all, the particularly rich archive of the Bank of England. Use has also been made of the intelligence decrypts recently declassified at the PRO, though these pertain only to Poland in the period 1919 to 1925.

The proportions of the three parts of the book, corresponding to the three countries examined, may need a final comment. Because of the teething problems of the new Hungary: four and a half months of communist dictatorship followed by Romanian occupation, rejection of the Paris settlement, crisis of government, royalist coup attempts, crippling inflation as well as the significant, sometimes defining, British involvement in finding solutions to these problems, the part discussing Hungary occupies a large portion of the book. The fact that many British personalities and concepts relating to interwar politics and finance, that would reappear in later parts, are introduced in this first division also contribute to this sizable volume of material on Hungary. While I could have redressed the disproportion by adding further material on Czechoslovakia and Poland, or by cutting some of the story relating to Hungary, I have felt that the present proportions reflect, or at any rate do not distort, the degree of British involvement in the political and economic life of these three Central European countries in the first half of the 1920s.

NOTES

- 1 Here is a list of some of the more prominent recent and relatively recent works on the subject, which provide guidance towards a working definition of the concept of 'Central Europe': Jenő Szűcs, 'The Three Historical Regions of Europe.' *Acta Historica Academiae Scientiarum Hungaricae* 29, nos. 2–4 (1983): pp. 131–84; Jacques Rupnik, *The Other Europe* (London: Weidenfeld and Nicolson, 1988); Timothy Garton Ash, *The Uses of Adversity: Essays on the Fate of Central Europe* (New York: Random House, 1989); Tony Judt, 'The Rediscovery of Central Europe.' *Daedalus* 119 (1990): pp. 23–54; Jacques Rupnik, "Central Europe or Mitteleuropa?" *Daedalus* 119 (1990): pp. 249–78; Piotr S. Wandycz, *The Price of Freedom: A history of East Central Europe from the Middle Ages to the present* (London

- and New York: Routledge, 1992), Introduction: 'What's in a Name?', pp. 1–17; Lonnie R. Johnson, *Central Europe: Enemies, Neighbors, Friends* (New York, Oxford: Oxford University Press, 1996), Introduction: 'Where is Central Europe?', pp. 3–12; Peter Bugge, 'The Use of the Middle: *Mitteleuropa* vs. *Střední Evropa*.' *European Review of History* 6, no. 1 (1999): pp. 15–35; László Péter, 'Central Europe and its reading into the past', *European Review of History*, vol. 6, no. 1 (1999): pp. 101–111.
- 2 Bugge, *The Use of the Middle*, pp. 16–18.
 - 3 Péter, *Central Europe and its reading into the past*, p. 102.
 - 4 Rupnik, *Central Europe or Mitteleuropa?* p. 257.
 - 5 Gábor Bátonyi, *Britain and Central Europe, 1918–1933* (Oxford: Clarendon Press, 1999).
 - 6 Bátonyi, *Britain and...*, p. 3.
 - 7 Wandycz, *The Price of Freedom*, p. 1.
 - 8 Johnson, *Central Europe...*, p. 5.
 - 9 See, for instance, Emil J. Kirchner, ed. *Decentralization and Transition in the Visegrad: Poland, Hungary, the Czech Republic and Slovakia* (Basingstoke and London: Macmillan Press, 1999).
 - 10 'After Three Years: The Need of a Foreign Policy' editorial article, *The New Europe*, vol. XIII, no. 157 (16 October 1919): p. 1.
 - 11 Robert J. W. Evans, Dušan Kováč, Edita Ivaničková, eds., *Great Britain and Central Europe 1867–1914* (Bratislava: VEDA/vydavateľstvo Slovenskej akadémie vied, 2002).

CHAPTER 1

Politics and Diplomacy: Limited Commitments

1.1 SIR GEORGE CLERK'S MISSIONS¹

Following the collapse of the 133-day-long Hungarian Soviet Republic on 1 August 1919, a downfall largely caused by the attack of the Romanian army, but also engineered by the Paris Peace Conference and by unofficial action on the part of British and French agents operating from Vienna,² the Conference proved incapable of imposing order on Hungary. Therefore, the end of Béla Kun's hold on power did not close the turbulent Hungarian chapter in the history of the Peace Conference. Neither did British involvement in Hungary's internal affairs come to an end or diminish. If anything, it began to intensify.

The reins of power in Hungary were handed over to a wholly Social Democratic government, headed by Gyula Peidl. The members of the cabinet were appointed in accordance with the agreement reached earlier with Colonel Sir Thomas Montgomery-Cuninghame, the British military representative in Vienna. Kun escaped to Austria, where he was interned. Soon, however, the Romanian army, in bizarre collusion with conservative Hungarian forces associated with Admiral Miklós Horthy and his Hungarian National Army,³ drove the Social Democrats out of office, and a period of chaos set in, both in high politics and everyday life. The assessment in Paris of the Romanian role in bringing down the communists in Hungary was equivocal. The Paris conference was initially reluctant to recognise Romania's claim to allied or associated status. The resistance, however, gradually eased and was dropped by the late summer of 1919, by which time it became clear that no western military reserves were available to deal with the persistent problems of the region. Together with the Romanians, Czechoslovak and Serbian troops also moved beyond their demarcation lines and occupied the northern and southern coal regions of Hungary, but, unlike the Romanians, who

decided to extract heavy indemnities in retaliation for the draconian peace conditions imposed on Romania by the German and Austro-Hungarian forces in May 1918, they were not involved in large-scale and forceful expropriations. The presence of the Romanian military at the resignation of the trade union government, with the resulting emergence of the right-wing István Friedrich as Prime Minister and the Habsburg Archduke Joseph as provisional Governor, helped create a government which was unacceptable to Hungary's neighbours, including Romania. By prolonging the instability, the Archduke's governorship provided an argument for the continued presence of foreign troops. As one of its few noteworthy accomplishments in the immediate aftermath of Kun's fall from power, the Supreme Council obtained the resignation of Archduke Joseph on 23 August 1919. However, the confusion gave sufficient leeway for adventurers, like the right-wing Hungarian free corps detachments, to benefit from the situation. While the French, who, at this time, wielded more political and military leverage in the region than any other Western country, regarded the Romanians as promoters of their interests in the region, the Supreme Council never authorised the Romanian army's thrust into Hungary and its seizure of Budapest.

With the Romanian entry into Budapest, the problem of enforcing the will of the conference upon an enemy turned into enforcing it on a refractory ally. The Supreme Council had just raised the blockade against Hungary, but in these circumstances the relief materials could not reach their destinations. On 5 August 1919, the Council resolved to appoint an Inter-Allied Military Commission for Hungary. The Commission was headed by four Allied Generals: Brigadier-General Reginald St George Gorton from Great Britain, Major General Harry Hill Bandholtz of the United States, the French General Jean César Graziani, and the Italian General Ernesto Mombelli. Accompanied only by a handful of support staff,⁴ the four generals were expected to enforce their injunctions through the weight of the authority of the Supreme Council.

A few, like Cyril K. Butler, head of the British Relief Mission, originally stationed in Trieste, appreciated that 'there is an enormous opening for the extension of British influence in this country.' For most diplomats, the main purpose of Allied involvement was to get a peace treaty so that Hungary could be taken off the international crisis agenda. For

this purpose, between early August and December 1919 the British were engaged through naval, military, economic, and diplomatic channels in the shaping of events in Hungary.

In mid-August, Admiral Sir Ernest Troubridge moved the headquarters of the Allied Danube Command to Budapest, and remained in full control of the fluvial communications associated with the Danube for the period of the Romanian occupation and beyond.⁵ As he had a flotilla of launches and their crew under his command, he retained more leverage over the military situation than any other Allied commander. He limited Romanian military operations across the Danube, and assisted Butler in the distribution of food aid by river.⁶

General Gorton, the British member of the Inter-Allied mission, arrived in Budapest on the day of the commencement of the Inter-Allied mandate (5 August).⁷ Gorton and the American Bandholtz took a much stronger line against Romanian actions in Hungary than their French and Italian colleagues. At their instigation, the Allied protests to the Romanian authorities, both in Bucharest and in Budapest, became progressively stronger and more frequent, even though they achieved few results.

By September, the Romanian presence in Hungary became a major obstacle to the work of the conference. On 5 September, the Supreme Council commissioned Sir George Russell Clerk, a diplomat of considerable reputation, to proceed to Bucharest with wide powers to negotiate on its behalf. Clerk, a former head of the War Department of the Foreign Office, British Minister designate to Prague and a member of the New Europe group, was a skilled negotiator. An expert in Middle and Near Eastern languages, he had, during the war, also immersed himself in the details of British policy on Poland.⁸ Clerk had, since 5 August 1919, participated at most of the meetings of the Supreme Council where the question of the Romanian occupation of parts of Hungary was repeatedly discussed.⁹ These credentials earned him broad support for his appointment both in Paris and in London.

Clerk carried a note from the Supreme Council, which argued that with the fall of Béla Kun there was no further need to occupy Hungarian territory, called on the Romanians to cease the expropriations, and surrender to the Allied Reparation Commission what had already been taken. Clerk arrived in Bucharest on 11 September 1919. He was accom-

panied by Allen Leeper, a member of the Political Intelligence Department, foremost British expert on Romania, and a delegate to the Peace Conference. Clerk could not obtain a speedy resolution of the impasse, as the Romanians presented him with an immediate government crisis. The official Romanian response, issued on 20 September, demanded a government in Hungary acceptable to Romania and also laid claim to further Hungarian territory. Back in Paris on 24 September, Leeper submitted a memorandum for Sir Eyre Crowe, British representative on the Supreme Council since 15 September 1919.¹⁰ Even the strongly pro-Romanian Leeper, who, in association with R. W. Seton-Watson and the New Europe group, had hoped for new democracies to arise out of the detritus of the old Monarchy, was scathing in his opinion of Romania's leaders, describing their methods as 'corrupt and tyrannical.'¹¹ Leeper also detected the Romanian intention to exploit signs of discord between Britain and France regarding the implementation of the peace treaties. Sharing the expert's convictions, Clerk and the conference decided not to budge on any of the issues in Clerk's original brief.¹² Therefore this mission to Romania, which ended on 29 September, resulted in failure. Before returning to Paris, however, Clerk decided to familiarise himself with the situation in Hungary. He arrived in Budapest on 1 October, and in a few days had talks with members of the Inter-Allied Mission, with Romanian representatives, and with Hungarian politicians, including Social Democrats.

Although British interest in Central Europe and the northern Balkans had been limited in the past, informed politicians perceived that the drastic economic changes induced by the war would have an effect on Britain's relationship with this region. Britain's business in the world was trade, and the heavy burden of Inter-Allied debts made the restoration of trade an imperative. The discouraging example of the pre-war controversy between imperial preference and Free Trade as well as the obvious economic supremacy of the United States required the complete overhaul of British overseas commercial strategy. For this reason, a Department of Overseas Trade (D.O.T.), and within it a Development and Intelligence Section, were created in 1917 and operated under the joint supervision of the Foreign Office and the Board of Trade. The D.O.T. had developed an excellent working relationship with the Treasury, which

itself was to become a key player in the decision-making process of British foreign policy.¹³ At the same time, it was obvious that a vacuum had been created in Central, Eastern and South-Eastern Europe. For a time, neither Germany, nor Russia would be able to recover the pre-war trade links with their former dependent territories. The area was thrown open to British, French and Italian ambitions for economic, financial and concomitant political influence. Each Great Power had its own method and style of approaching this newly opened turf. The British were likely to remain content to develop trade links and keep political involvement to a necessary minimum. By contrast, the French had a tendency to turn political influence into tutelage. The Italians, suffering from notions of the 'vittoria mutilata,' were eager to exploit any opportunity to increase their gains, whether in Central Europe or elsewhere. Each of these powers had preferred candidates among the successor states¹⁴ which would serve as the axis for future influence in the region. That each Great Power couched this ambition in verbal support for various schemes of post-imperial integration of the new states should not obscure their real purposes. The plans for integration reflected the interests of their Great Power progenitors, and were never likely to be espoused by all the successor states simultaneously. In this early period, these strategies were far from being clear-cut. The British, French and Italian governments were hedging their bets, and were still putting out feelers. Clerk's missions to the region, therefore, must also be seen in the context of narrowly defined British interests, in addition to that of a job carried out on behalf of the Peace Conference. Apart from securing peace and justice, Clerk also tried to make sure that Britain remained on good terms with both the Hungarians and the Romanians; otherwise one or the other government might turn to Italy and particularly to France for patronage. Such a balancing act, however, was difficult to achieve. Almost inevitably, Clerk's approach was condemned in Romania as being pro-Hungarian and vice versa. In Budapest, Generals Bandholtz and Gorton heavily criticised Clerk for not denouncing the Romanian action in Hungary.¹⁵ In the course of Clerk's first talks in Budapest, the Hungarian socialist leader, Ernő Garami told him that in order to solve the Hungarian conundrum, the Peace Conference would have to discard its rigidly non-interventionist stance. Clerk gained the impression that the longer the

Romanian occupation of eastern and central Hungary lasted the more difficult it would be to re-establish normalcy in the region, and the more entrenched the as yet uncontrolled Hungarian extremist counter-revolutionary elements would become. In his final report on his first mission,¹⁶ Clerk maintained an even-handed approach. While still not condemning the Romanians outright,¹⁷ he underlined the Romanians' hope of finding a more pliant Hungarian administration as one of the principal reasons for their continued occupation. The memorandum concluded that the Gordian knot could only be cut by the establishment of a viable Hungarian government. Garami later recalled that Clerk had intimated to him that 'the Entente is about to switch from the policy of ultimatums and notes to a different method.'¹⁸

The gentry-based Friedrich group that had taken control of the administration in Hungary held on to office with stubborn tenacity. Whereas the Inter-Allied military mission was prepared to put its trust in Friedrich,¹⁹ the Allies did not regard the Friedrich group 'sufficiently permanent in character to justify making a peace treaty [with].'²⁰ Reports from Budapest suggested that the weakness of the government, the harshness of the Romanians, and the inability of the Allies to influence events created the danger of the recrudescence of Bolshevism. Clerk declared to the Supreme Council that if Friedrich refused to broaden the basis of his government, 'he should be informed he must go.'²¹

Clerk's summary of his talks in Budapest persuaded the Peace Conference on 13 October to send him on a second mission, this time to Budapest only.²² On Sir George's report of his mission to Romania, Eric Forbes Adam, Second Secretary at the Eastern Department, minuted: 'Sir Eyre Crowe at the Supreme Council has advocated the despatch to Hungary of a political representative of the Conference. Could not Sir G. Clerk be appointed as Allied High Commissioner in Hungary, with powers to give instructions to the French & other generals, Admiral Troubridge & the Romanian authorities in Hungary alike? The Romanians might agree as a way out of an impasse; & I think the population of Hungary would welcome the appointment. (The precedent is M. Jonnart at Athens in 1917.)' Lancelot Oliphant wrote underneath: 'I gather from Sir G. Clerk that this is under consideration,' and a further, unidentified, comment suggested that the question 'has now been settled.'²³ Sir

George Clerk was sent to Hungary, as a special diplomatic representative of the Supreme Council to secure the Romanian withdrawal and to bring about the formation of a Hungarian government representative of the popular will. Clerk was accompanied by Sir Percy Loraine, British First Secretary at Warsaw in 1920–21, and a fellow member of the New Europe group. Their early experiences in Hungary could well have proved useful in subsequent years when Poland, Hungary and Czechoslovakia were divided by diverging ambitions, and when Polish affairs fell under the responsibility of the Northern Department whereas Czechoslovakia and Hungary were monitored by the Central Department of the Foreign Office.

Clerk arrived in Budapest for the second time on 23 October and began his talks the next day. In his first major dispatch from Budapest, he criticised the Christian National Bloc, which grouped themselves around Friedrich. Significantly, he also wrote to Paris: 'I have seen Admiral Horthy. He inspires confidence.'²⁴ It did not take long for Clerk to grasp that the most sensitive problem in Hungary was that Jews were in the forefront of the left-wing intellectual and working class opposition to the traditional structures of the constitution. Their radicalism was not shared by the large peasantry, the landowning class, nor by the industrialists and the financiers, many of whom were also Jews. The reaction to the violence of the two recent revolutions, especially the Bolshevik rule under Béla Kun, manifested itself in an upsurge of popular anti-Semitism, which was qualitatively different from the usual élitism and prejudice of pre-war Europe, sentiments to which Clerk himself was not immune. Many Jews who felt threatened by this revengeful atmosphere welcomed the presence of Romanian, Czech and Serbian troops in Hungary under whose authority they felt they could take refuge. In turn, the occupiers also used the welcome extended to them as an excuse to stay. Clerk understood that full withdrawal of foreign troops would raise a cry by left-wing elements fearful of a full-blown White Terror. Clerk took this important element into account when he decided to favour Admiral Miklós Horthy, the only person on the political and military scene in Hungary who was in charge of a substantial military force, and who looked impervious to political intrigue.²⁵ Horthy assured Clerk that if a new administration could be formed, he would 'keep his troops in

hand.²⁶ On the strength of the admiral's statement, Clerk assured a socialist convention that order would be maintained. In putting his trust in Horthy, Clerk differed from the French, who concluded that not only should Friedrich's government be made to resign, the Romanians made to withdraw, and a new police force organised, but that Horthy's 'clique' and his 'army of adventurers' should also be disarmed. The French envisaged the need for 'an Inter-Allied force of two divisions' for this task.²⁷ French dissent, which was inspired by the suspicion that Horthy's men would take a revanchist line against the other successor states, was also the portent of future discord between the British and French in questions concerning Hungary. Clerk's status as a plenipotentiary envoy, however, meant that his verdict took precedence. In his missive of 1 November Clerk asked for authority from the Supreme Council to confer on 'new government [to be constituted] provisional recognition of Supreme Council.'²⁸ He received this authority in a telegram from Paris, dated 5 November.²⁹ Clerk's assurances of the probity and reliability of Horthy satisfied Crowe, who declared:

Sir George must have had serious reason for this opinion [...]. Moreover, it was well known that the majority of the Hungarian population favoured the establishment of a conservative form of Government, [which would] not be democratic. [...] There existed no right to prevent the Hungarian people from forming a government corresponding to its own tendencies, provided there were no question of restoring the Habsburgs.³⁰

In a move which proved decisive, Clerk, on 5 November, invited leaders from practically the whole spectrum of Hungarian politics, to meet. After a short discussion, he introduced Horthy into the room, who, for this occasion, wore civilian clothes. The admiral promised that the army would subject itself to the authority of a new government. There would be no military dictatorship in Hungary. Though the socialist Garami doubted the sincerity of Horthy, he could not contemplate the prolongation of the Romanian occupation, and the failure of the good offices of the Entente representative. At the instance of the loose partnership of democratic and opposition parties present in the room, a basic accord

was formulated in writing and signed by all the Hungarians attending the meeting.³¹ Clerk regarded the agreement as a critical breakthrough. The way was clear for the Supreme Council to communicate a telegram to Bucharest in which it threatened to break off relations with Romania, and cease supporting it.³² This brought about the instantaneous withdrawal of the Romanian troops from Budapest on 14 November.³³

Clerk had already told Horthy that on the withdrawal of the Romanians, his troops may take charge of the capital. The new strong man of Hungary signed a declaration according to which 'the army subordinates itself to the will of the government created with the assistance of the Entente's representative.'³⁴ On 16 November, Horthy, riding on his legendary white horse, entered Budapest with his men, and in spite of the welcome of cheering crowds, and his earlier guarantees, promised to make the city 'atone for its sins.'

Following the Romanian pull-out from Budapest, Clerk could concentrate on the creation of a coalition government for Hungary. His house became a daily meeting place where new groups and alliances crystallised.³⁵ Clerk achieved a major coup by inviting Count Albert Apponyi, the foremost pre-war ideologue of Magyarisation, whose presence, somewhat surprisingly, proved reassuring for the Social Democrats and all other parties except the Christian National Bloc.³⁶ On one occasion, Clerk reported his 'meeting [with] about 40 representative Hungarians at my house,' which 'lasted 5 hours.'³⁷ Formal negotiations were also held at the Zichy Palace in Budapest. As a result of these 'tedious and twisted negotiations which [Clerk] had to conduct,' Friedrich resigned.³⁸ With Apponyi's and Horthy's support behind him, Clerk managed to persuade the Christian National Bloc to get rid of Friedrich on the condition that someone from the same party was chosen as new head of government. In a report sent by Clerk from Budapest on 19 November 1919, E. G. F. Adam minuted: 'A most interesting crisis in which Sir George Clerk, Count Apponyi & Admiral Horthy succeed in producing order out of chaos.'³⁹ On 25 November, Clerk informed the Peace Conference that: 'I have given formal recognition of the Supreme Council to Huszár as provisional *de facto* administration of Hungary.' The new Prime Minister, Károly Huszár, was a relatively unknown figure. He had been Christian-Socialist Minister of Education in the Friedrich government.

One of the most important aspects of Clerk's work in Hungary was that he only extended recognition to the new Hungarian government in return for a formal pledge to respect democratic civil rights. Recognition was subject to the condition that the provisional government undertook 'to guarantee to every Hungarian national free civil rights including those of a free Press, free right of meeting, freedom to express political opinions and a free, secret, impartial, and democratic election based on universal suffrage.'⁴⁰ Both the left wing in Hungary and observers of Hungarian events in Britain, mainly Liberal and Labour MPs like Joseph Kenworthy, Josiah Wedgwood or Arthur Ponsonby, as well as the arch-critic of the Austro-Hungarian Monarchy, R. W. Seton-Watson, would later judge the Horthy-régime against the standards of the agreement signed with Clerk.⁴¹

Huszár, in conformity with the declaration he had signed, promised early elections. The elections, because of their peculiar origins in the British-brokered agreement, came to be called the Clerk-elections. Huszár assured Clerk that he was ready to dispatch a delegation to Paris to receive the terms of peace as soon as an invitation was sent. With this latter undertaking, the main aim of Clerk's mission to Budapest, which was among the most successful operations of post-war Allied diplomacy, had been achieved.

Clerk's final report from Budapest,⁴² while bewildering for some,⁴³ contained recommendations for future British policy on the whole Central European region. Together with the economic arguments of earlier memoranda prepared by Sir William Beveridge,⁴⁴ General Smuts⁴⁵ and Sir Francis Oppenheimer,⁴⁶ the report formed a basis for that policy. Clerk proposed that the obligation of reparations be lifted from both Austria and Hungary to ease the process of reconstruction and trade. He also submitted a plan for a Central High Commission to arbitrate in inter-ethnic conflicts and revisionist claims. Clerk's mission demonstrated how quickly and effectively it was possible to make up for the lack of previous experience in the politics of Central Europe.

On 1 December 1919, Clemenceau, in the name of the Supreme Council, invited the Hungarians to send their representatives to Paris. The 'Hungarian crisis' was over. As the exceptional circumstances surrounding the end of the war receded, British-Hungarian relations also began to be conducted through normal diplomatic and economic channels. Sir

Thomas Beaumont Hohler was appointed High Commissioner to Budapest from 5 January 1920, then Minister and Consul General till October 1924. The Military Commission of Allied Generals was replaced by a Control Commission. Thenceforth, the West's involvement in the affairs of Hungary would no longer be confrontational, but seeking ways to adjust to the new order in Europe.

1.2 THE HUNGARIAN PEACE TREATY AND THE BRITISH-FRENCH RIVALRY

The treaty of peace with Germany was ratified on 10 January 1920, and any unfinished business of the conference was carried over to the Conference of Ambassadors.⁴⁷ The ultimate responsibility for decisions remained in the hands of the heads of government, and this led to the extraordinary series of international conferences called by Lloyd George in the early twenties.⁴⁸ In Hungary, Horthy and the National Army remained the dominant factor. On 9 January 1920 Hohler, an old friend of Horthy,⁴⁹ reported that the 'Cabinet formed by Sir George Clerk is representative of all parties but is quite useless [...] and Jingo.' If returned after the elections, measures of vengeance against the left were expected. '[The] only alternative,' Hohler continued, 'would be the assumption of a dictatorship by Admiral Horthy, [to secure] the preservation of order...'⁵⁰ To prevent such a dictatorship, the British Foreign Office made a further contribution to the formation of Hungary's post-war system. On 16 January Hohler telegraphed to London: 'Prime Minister asked me yesterday if I could give him any indication of views of Allies as to future ruler of Hungary [...] I presume objections to Archduke Joseph or any other Habsburg are as valid as ever.'⁵¹ Curzon's reply reiterated the Allies' objection to a Habsburg ruler in Hungary, but stated: 'His Majesty's Government [...] have no objection to selection of some notable Hungarian to office of Head of Hungarian State [...] whether [...] elected King or Palatine or designated by any other title, provided he is established by lawful means...'⁵² This telegram cleared the way for the creation of Horthy's regency, which remained such a curiously anomalous feature of the politics of the interwar régime in Hungary.

It was at this time that the Quai d'Orsay in Paris began to show intensive interest in Hungary. The Hungarians, in turn, had a singular reason for courting and accepting attention from the West: the overwhelming determination of practically every section of society to overturn the peace settlement. Although the Hungarians regarded the French as the villains of the peace, and were enthused by the occasional British critique of the proceedings in Paris, the government in Budapest was quite amenable to French promises of support. The accession of a new administration in Paris, replacing Poincaré and Clemenceau in January 1920, under president Paul Deschanel and Prime Minister Alexandre Millerand who was also Foreign Minister, inaugurated a Hungarophile phase in French foreign policy. The most well-known and most controversial feature of this phase was the so-called Millerand-letter. The *lettre d'envoi*, dated 6 March 1920, was the official rejoinder issued by the Allied and Associated Powers, signed by Millerand, in response to the observations of the Hungarian peace delegation on the conditions of peace. One paragraph of the lengthy note raised the hope of the rectification of the new Hungarian frontier, with the help of the 'bons offices'⁵³ of the League of Nations, if both parties affected by a particular stretch of the border agreed among themselves. While the remedies offered by this scheme were minimal, Hungarian politicians set great store by its provisions.

Although the diplomatic exchanges relating to the short period were known at the time, little was understood about the causes of the sudden change.⁵⁴ Recent releases from the Quai d'Orsay archives, however, allow a proper evaluation of this rapprochement. The impression of an apparent change in French foreign policy ought not to lead to the conclusion that the French Foreign Ministry embarked on some distinctly new line of policy. There were two basic factions within the French political establishment who opted for diverging solutions to France's security problems. Poincaré and Clemenceau believed in the efficacy of draconian peace terms, and the speedy reinforcement of France's eastern allies. Another group, centred around Deschanel, Millerand, and especially Georges Maurice Paléologue, the new Secretary General of the Quai d'Orsay, were not satisfied with a security policy relying exclusively on the victorious successor states. To prevent Austria's feared *Anschluss* with Germany and as a barrier against both Germany and Soviet Russia, they

intended to guide all the successor states of the former Dual Monarchy into a confederation of Danubian states, if need be under Habsburg leadership. Paléologue devised a plan which would have made Hungary the 'axis' of a pro-French Central European confederation.⁵⁵ The question may arise why Vienna was not vested with this degree of confidence by the French. But the post-war realities had reversed, at least for a time, the traditional asymmetry between Vienna and Budapest. The anarchical political conditions, economic deadlock and left-wing government in Austria contrasted unfavourably with the relative stability exuded by the ascendant conservative régime of Hungary. In addition, in view of France's strong interest in the defeat of Bolshevism in Russia, the fact that, unlike Czechoslovakia, Austria, and the Serbo-Croat-Slovene Kingdom,⁵⁶ Hungary did not declare neutrality in the Polish-Soviet-Russian war also appeared to justify the Hungarian choice. That the French and Czechs did not see eye to eye in the question of the treatment of Bolshevik Russia is illustrated in a letter sent by Louis Fontenay, the French Minister in Belgrade, to Millerand, where it is reported that Beneš, who was in the Serbo-Croat-Slovene capital to finalise the scheme that came to be known as the Little Entente,⁵⁷ had declared any anti-Bolshevik military campaign to be 'une aventure' and said that 'il ne serait pas disposé [...] de marcher – le danger bolchevique lui apparaît encore lointain.'⁵⁸

Similar conclusions were drawn in favour of Hungary by the Italian and the British diplomats and governments. However, whereas the British entertained only economic ambitions in Central Europe, the French and Italians saw economic connections as a lever towards political influence. The Hungarians were conscious of the emerging Anglo-French rivalry for their favours. Conversely, the victorious successor states felt betrayed by their former patrons. This situation generated unease among British diplomats stationed in Hungary's neighbours. Sir Alban Young, the British Minister in Belgrade, for instance, argued:⁵⁹

I certainly think that the policy His Majesty's Government are credited with pursuing regarding Budapest as a future centre of British commercial activity for the surrounding area is one which is tending to consolidate the heirs of the dismembered portions of the monarchy against us as well as against the new Hungary.⁶⁰

Young warned that the appointment of a British Commercial Commissioner for Hungary⁶¹ with its population of six and a half million, while none had been appointed to Yugoslavia with its fourteen million, would not go down well in Belgrade. He also suggested that British commercial policy should recognise the fact that by all the 'extensive loppings-off of Hungary under the Treaty of Peace,' Hungary would be an inadequate trading partner without the co-operation of its neighbours. Furthermore, Young believed that the unequal attention paid to Hungary added force to the surrounding countries' determination 'to keep their feet planted on Hungary's neck.'⁶² Young was also 'shocked to hear' from Baron Andor Wodianer, the Hungarian envoy to Belgrade, that a consignment of British textiles passing through Yugoslavia contained uniforms for the Hungarian army.⁶³

The Hungarian delegation arriving in Neuilly in January 1920 to receive the peace terms could take cautious courage from these signs.⁶⁴ Besides the official delegation, an unofficial mission of Hungarian businessmen also arrived in Paris and initiated talks in the course of which they offered economic concessions to French firms on a wide scale including projects for the state railways, state factories, fluvial canal and port constructions, privately owned utilities and even control of the Hungarian Credit Bank, which had controlling shares in 230 Hungarian companies. They were no doubt aware that they were intensifying the competition between France and Great Britain. During the spring of 1920, Dr. Károly Halmos, the chief representative of the Hungarian business group, reported progress in negotiations with the influential French Schneider-Creusot concern.⁶⁵ The news of an impending agreement became known when, at the Allied conference in London, held in February and March, the British and the Italians were inclined to move on certain territorial issues in Hungary's favour. The Foreign Office in London was infuriated by the news, especially as a controlling share in the Hungarian Credit Bank was also offered to a British syndicate chaired by Lord Furness just a short time before.⁶⁶

The apparent rush to seek Hungary's favour set off alarm bells among the victorious successor states. The most articulate spokesman of Hungary's new neighbours, the Czechoslovak Foreign Minister, Edvard Beneš, initiated a diplomatic counter-offensive. Gustave Clément-Simon, the

French Minister in Prague reported to Millerand that Beneš, in a speech to the Czechoslovak national assembly, has said that lenience towards Hungary would have exactly the same impact on European politics as lenience towards Germany. As far as Beneš was concerned, '[l]es frontières de la Hongrie ont été fixées à Paris. Il importe qu'elles soient considérées comme intangibles.'⁶⁷ To render Czechoslovakia and the rest of the Trianon system safe, Beneš had, for some time, considered the concept of a defensive ring around Hungary. In March 1920, Young, the British Minister in Belgrade, reported to London that 'about six months ago the Government of this country was approached by the Czechs with proposals for a defensive agreement against Hungary.' The Serbian military authorities replied that they had 'no reason to be afraid of Hungary as they felt quite confident to deal with such forces as she could now command.' By mid-August 1920, the attitude in Belgrade would change, and a treaty with Czechoslovakia would be signed.⁶⁸ As a consequence of the news of the Czechoslovak manoeuvres, the Hungarian media began to speculate. Hungarian reports reaching Belgrade surmised that the anti-Hungarian bloc 'is able to reckon with the sympathy of the French who wish by this policy to construct a counterpoise to the English in Hungary.'⁶⁹ This interpretation of the events missed the most recent developments in Franco-Hungarian relations, even if it did not miss the inevitable long-term dynamic that the future Little Entente would engender in Europe. The French, however, appeared to be able to derive pleasure from the discomfiture of the British: Young complained to Curzon that 'my French colleague watches with glee the odium which my constant intervention on behalf of Hungary with the S.H.S.⁷⁰ Government is undoubtedly bringing on us.'⁷¹ Czechoslovak diplomacy did not rest. By May 1920, in anticipation of the signature of the peace treaty with Hungary which took place on 4 June 1920 in the Petit Trianon Palace, Beneš produced concrete plans for a series of treaties between the victorious successor states around Hungary. The idea received a further spur when the Hungarians planned to assist Poland in their war against Soviet Russia in the summer, and the Quai d'Orsay could not rule out French support, even though Hungary was motivated by the hope of recovering Ruthenia and at least part of Slovakia through this operation. Mainly due to fears of Italian hostility, by late summer, the Serbo-Croat-Slovene gov-

ernment dropped their objections, and on 14 August, as the first of a series of treaties between Czechoslovakia, Romania and Yugoslavia, Beneš signed a defensive alliance in Belgrade exclusively aimed against a possible Hungarian attack.⁷² The next stop in Beneš's itinerary was Bucharest, where Dimitriu Take Ionescu, the Romanian Foreign Minister, was ready to adhere to a convention with Prague similar to that which had been signed with Yugoslavia, 'mais sous la condition que la Grèce fût invitée à y adhérer et éventuellement la Pologne.' To this Beneš replied that in the question of Poland 'il est lié par les exigences de sa politique intérieure,' and the question was allowed to rest there.⁷³

Traditional historiography has described the Little Entente as a natural offshoot of French foreign policy, an inherent part of France's security interests in Central Europe. Newly released French records show, however, that although a few members of the French diplomatic corps and of the Quai d'Orsay regarded the anti-Hungarian semi-circle, with its potential for growth, with sympathy, this was not the preponderant view in France in the early days. Millerand offered an unequivocal critique of the emerging political-military formation. He warned that '[u]ne telle politique présente le grave inconvénient d'isoler le gouvernement magyar, qui sera inévitablement tenté de se rejeter du côté de l'Allemagne pour y trouver un appui.' In Millerand's view, France's concern must be to search for the possibilities of political and economic rapprochement in Central Europe, rather than to encourage new divisions. Millerand also requested Robert de Billy, the French Minister in Athens, and François de Panafieu, the French Minister in Warsaw, to impress upon the Greek and Polish governments the risks involved in acceding to the new security pact and thereby helping to associate Hungarian interests with those of the Germans.⁷⁴ In spite of its close ties with France throughout its subsequent existence, the Little Entente originated in the temporary desertion of Prague, Bucharest and Belgrade by Paris. This was counterbalanced in this period by good British relations with Prague, where the British Minister, Sir George Clerk and the Commercial Secretary, Robert Bruce Lockhart maintained a high profile, which contributed to the British acceptance of the Little Entente. It did not follow, however, that Britain planned active co-operation with the new formation. The expansion of the Little Entente to include Poland, while unap-

pealing to the French, would also have met Lloyd George's long held opposition to enhancing the political and military potentials of the resurrected state, which could destabilise the situation in Central Europe.⁷⁵

The final peace terms, with minimal alterations, were communicated to the Hungarian delegation in Neuilly on 6 May. By that time, the success of France's Hungarian-based commercial plan looked increasingly less realistic. Nonetheless, the French politicians went ahead with the pro-Hungarian offensive. In nervous anticipation of the signature of the Treaty of Trianon, the Paléologue-Halmos talks produced the most far-reaching and fantastic proposals and counter-proposals. In return for the commercial and financial opportunities, Halmos demanded large tracts of territory in Slovakia, including the capital Bratislava, parts of Transylvania, parts of Yugoslavia, autonomy for the minorities in Romania, and plebiscites in western Hungary as well the Banat region in the south-east. A document was produced, dated 15 April 1920, in which Paléologue agreed to the Hungarian demands concerning Romania, promised a Franco-Hungarian military and economic convention, as well as general promises to support Hungary on the international scene. The document was a forgery, part of a war of words. Significantly, its authenticity was not officially denied by the parties until as late as 1927.⁷⁶

Although no precise figure had yet been put on Hungary's reparations obligations, it was evident that most of Hungary's predictable revenues would be mortgaged. Schneider-Creusot and the French banks were aware of this. When the Hungarian government signed the documents offering options on the Hungarian state railways to the French concern, they did it, with the secret encouragement of the French government, in contravention of the reparations clauses of the Treaty of Trianon. The Foreign Office was furious, and it was thought at the time that Hohler, the British High Commissioner in Budapest, was sent on forced leave for six months because this British diplomatic failure was attributed to his lapse of vigilance.⁷⁷ In early June, Maurice Fouchet, the French High Commissioner in Budapest, reported to Maurice Millerand:

Le Gouvernement britannique vient de remettre au Gouvernement Hongrois une note dans laquelle il signale que l'affaire des chemins de fer est contraire aux stipulations [du] traité de [paix] et

notamment à celles du chapitre des réparations. [...] Le Ministre des Affaires Étrangères⁷⁸ a répondu à M. Hohler qu'il n'avait pas cru devoir de préoccuper de cette question qui regardait seulement la France. J'ai dit au comte [Te]leki que cette réponse avait été [très] sage...⁷⁹

The following day, Fouchet's evasion was bolstered by Millerand's response: 'Le Gouv't britannique n'a fait jusqu'ici aucune communication au Gouv't français relativement sur options de Hongrie.'⁸⁰ Millerand's denial of his receipt of the British protest was untruthful,⁸¹ and it helped to keep the stakes high, at least on the political level, throughout the summer.

Parallel with the French designs to obtain control of Hungary's railway system and related industrial assets, a certain Lieutenant-Colonel Arthur Grenfell had begun negotiations in January 1920 in Vienna and Budapest on behalf of a British company called River Syndicate Limited for the control of Danube shipping as well as regarding stakes in the financial house called Bodenkreditanstalt in Vienna. Sir Francis Lindley, British High Commissioner in Vienna, reported that Colonel Grenfell's scheme was supported by the Austrian chancellor Karl Renner and by Lord Inverforth, the British Minister of Munitions, who, from a commercial point of view, was interested in the Danube scheme. The latter were both prepared to 'present the Czecho-Slovak Government, [who were not convinced that their interests were served by the British take-over], with a *fait accompli*.'⁸² Grenfell then proceeded to Budapest where he secured an option from the Hungarian River and Steam Navigation Company for the planned project. At the same time, Lord Inverforth sought, through Lord Hardinge, Permanent Under-Secretary at the Foreign Office, the approval of the British government for a 'general scheme for the control of the Danube shipping and the initiation alongside of it of commercial undertakings for the supply of raw material etc.' In particular, Inverforth asked for an assurance that 'the money invested by British subjects in these commercial undertakings is not taken for the payment of war indemnities.' When Hardinge pointed out that the proposed deal would indeed come into conflict with the Treaty of Trianon to which fact the British government may not object but the French and

the Italians may well do, Inverforth responded that he had learnt that 'both the French and the Italians have bought large industrial concerns in Austria without any mention of the purchases having been made to His Majesty's Government and that consequently they could not complain of the proposed scheme.' As to the question of indemnities, Lord Inverforth asked for the support of the British member of the Reparations Commission, Sir John Bradbury. Curzon informed Hohler in Budapest that 'as the matter was urgent, I authorised Lord Hardinge immediately to give the assurance requested by Lord Inverforth.'⁸³ Thus, the River Syndicate's scheme went ahead with official British backing. On 1 June Lindley reported to the Foreign Office that the Austrian chancellor had informed him that 'Colonel Grenfell's group had now definitely acquired an interest in the Donau-Dampfschiffgesellschaft and the Süd-deutsche Dampf[schiff]gesellschaft and that the negotiations were concluded.' The British Minister forecast that 'it will not be long before the group from a London Company [...] work[ed] the vessels which they acquired from private firms under the British flag,' but he also admitted that reparation liens might be a problem.⁸⁴ At the end of August 1920, it was reported from Budapest that the Hungarian Credit Bank hesitated to deposit a sum of £100,000 which they had received from the Danube River Syndicate at Barclay's Bank 'fearing that under the Peace Treaty it would be seized for pre-war debts.'⁸⁵

Even though the British scheme did not directly interfere with any French deal regarding the railways, the French were alarmed by the progress of the British commercial talks. On 29 July 1920, Sir George Grahame⁸⁶ reported from Paris that the French journal *Eclair* had published an article by a M. Marc-Henri, which claimed that 'England, taking advantage of the exceptional circumstances resulting from the war, has acquired such a preponderating financial and commercial hold of Hungary that the country has practically become a British colony [...] whereby England,' also using the tool of inter-Allied debt, 'intend[ed] to take the place of Germany on the road from Hamburg to Bag[h]dad.'⁸⁷

It was a sign of the gradual weakening of the French position in Hungary that this despatch was not minuted by the Foreign Office. The British were also cautious not to stoke French suspicions. When, on 29 June 1920, Lord Derby, the British ambassador in Paris, asked for a British

warning to be sent to the French government with regard to the Schneider–Creusot negotiations for control of the Hungarian state railways, Eric Phipps, substituting for Curzon, declined the ambassador's request. The Under-Secretary of State replied that if such a warning were sent, the French 'would in all probability answer that in fact the British Government were on their part encouraging similar British schemes for the control of Danube shipping.'⁸⁸ Phipps added that any rejoinder 'could be rebutted by pointing out that the River Syndicate Limited scheme will only obtain the support of His Majesty's Government in so far as it does not run counter to the operations of the Reparation Commission' and that 'it is not the practice of His Majesty's Government to exert political pressure on behalf of private financial or commercial enterprises.'

Records of the Quai d'Orsay suggest that the French intended to use the Hungarian options at a forthcoming meeting between Lloyd George and Millerand as a bargaining chip to counter other, unspecified, British demands.⁸⁹ Eventually, the British approach, i.e. not allowing overt political interference with commercial considerations, proved to be the practical one. Schneider–Creusot meant to move into Central Europe and a deal over the Hungarian railways had been signed in June, but the options ran out in November without being taken up. The French consortium found that Czechoslovakia would be an economically and politically more hospitable base for their penetration of the region. In late summer, the British Commercial Commissioner in Budapest, Richard J. E. Humphreys reported from a 'reliable source [...] that the French have greatly modified their proposal with regard to the Hungarian Railways, and that their present proposal is merely to supply material and not to take over the lease of the Railways.' Humphreys even informed the D.O.T. of the emergence of British firms who wished to 'supply [...] material [...] for Hungarian State railways.'⁹⁰ Schneider–Creusot's political backers in France were loath to face prolonged confrontation with Britain over Hungary, and the British were not prepared to desist. After all, the American withdrawal from European responsibilities made the French financially as well as militarily dependent upon British goodwill. One further reason for the eventual cooling off of the French-Hungarian diplomatic flurry was Italian opposition to the French designs. French domination in Central Europe with Hungary at its core would have

destroyed Italy's chances of creating its coveted sphere of influence in Austria, Hungary and Romania, an essentially anti-Slav bloc.⁹¹ On 4 July 1920, Athelstan-Johnson reported from Budapest that 'My Italian colleague has informed me that he has received instructions from his Government to support me in any representations I may be authorised to make against proposed sale or lease of Hungarian State Railways to French Financial group.'⁹²

Following the Spa conference, which opened on 5 July 1920, the French began to retreat. Ironically, after Spa, realising how much more important British support for the disarmament of Germany and the abandonment by Lloyd George of his moderation towards the question of German reparations were for France, the French leaders excused towards Hungarians their declining interest in Hungary by referring to the sensitivities of their British allies.⁹³

The French love-affair with Hungary did not help the Hungarian cause in Britain. Opponents of Hungary in Britain went out of their way to blame the French. R. W. Seton-Watson expressed this graphically when he wrote: 'The folly of the French renders me speechless.'⁹⁴ In lamenting the fate of the Hungarians, the British High Commissioner in Budapest remained a lone voice among British diplomats. In a private letter to Curzon, Hohler delivered a forlorn jeremiad about the nature of the emerging settlement:

I know it is quite out of the question to make any change in the treaty, but I can't help regretting it, as the instrument can only be a whitened sepulchre—full of dead men's bones. [...] Apponyi will refuse to put his signature on the treaty [...] I do not think it is possible that it should be signed with any sincere intention of really abiding by it, nor with any hope of even being able to carry out its terms.

An unidentified clerk minuted that 'Mr Hohler has become more Hungarian than the Hungarians.'⁹⁵ But Hohler knew that he could not make a difference.

The French scheme proved to be a chimera, but its history serves as an illustration of the degree to which both the Quai d'Orsay and the

Foreign Office remained steeped in the old ways, in spite of the pledges made to conduct European diplomacy through the channels of the League of Nations. They entered the fray with all the relish of their 19th century predecessors.

Paléologue resigned from the Quai d'Orsay, and was replaced, on 25 September 1920, by Philippe Berthelot, an articulate adversary of Hungarian ambitions and a friend of Czechoslovakia. All in all, the short flurry of Franco-Hungarian flirtation proved detrimental to Hungary's interests without any commensurate benefits. At the same time, the Foreign Office satisfied themselves that the French did not mean to overturn the treaty terms with Hungary.⁹⁶ Athelstan-Johnson observed that 'the coquetry with Italy and France came to nothing [...] the net result of intimacy with the Italian or French Governments only meant vague promises of territorial expansion in return for the most exacting contracts of a commercial nature.' Hungarian leaders took comfort from the fact that, in spite of the turbulence of the preceding few months, British interest in Hungary, albeit essentially commercial, had not diminished.⁹⁷

1.3 HUNGARY'S INTERNAL AFFAIRS

In the meantime, there emerged a body of British politicians who were critical of the new régime in Hungary. Horthy was elected Regent on 1 March 1920 by the democratically elected assembly. His election was assisted by the National Army through the large-scale intimidation of socialists and liberals. Members of the New Europe group and left-wing MPs watched these developments with forebodings. Defeat in war, the territorial losses and consequent dislocation, the fall of the previous social hierarchy, two revolutions, and economic uncertainties created a dangerous political and moral vacuum in Hungary. The 'Young Turks' of Hungary were not capable men. Disillusioned army officers, led by Gyula Gömbös, formed the Association of Awakening Hungarians. The group frequently made its presence felt by carrying out attacks on suspected communists or their former collaborators. Most of these encounters boiled down to disorderly violence and mob rule. Certain commanding

officers, such as Iván Héjjas, Pál Prónay and Gyula Ostenburg-Moravek, became notorious in the West for alleged instances of summary execution, torture, beatings, and other examples of what became known as the 'White Terror'. Horthy and his apologists maintained that the National Army was not involved in these atrocities, that the detachments had been formed as groups of resistance during the time of Béla Kun, and had not been integrated into the army while they were carrying out these acts.⁹⁸ Nonetheless, the fact that public order and security was so conspicuously lacking in Hungary under a strong man like Horthy raised grave doubts regarding his democratic credentials. The attention of foreign observers was particularly drawn by the execution-like murder, on 20 February 1920, of Béla Somogyi, editor of the journal of the Social Democratic Party, *Népszava*, and of his colleague, Béla Bacsó.

Both the administration of Sándor Simonyi-Semadam,⁹⁹ which had undertaken to sign the peace treaty, and that of Count Pál Teleki,¹⁰⁰ who steered the treaty through the Hungarian Parliament, had to resign because of the strong national opposition to the treaty. The treaty was only accepted in the Hungarian legislature after, on a British initiative, on 26 October 1920, the Allied High Commissioners had handed a joint *démarche* to the Hungarian Government, insisting on ratification,¹⁰¹ which finally took place on 13 November 1920. Thereafter, apart from the enforcement of the disarmament and reparation clauses of the peace treaty, the British government wished to have no further involvement in the internal affairs of Hungary. Crowe, the new head of the British Delegation at the transformed conference at Paris, was one of the strongest proponents of this view.

The earlier intensive involvement made such aloofness difficult, however. As a result of the persistent allegations of persecutions, Arthur Henderson, the Secretary of the Labour Party and C. W. Bowerman, acting for the Trades Union Congress, sent protesting telegrams to various politicians in Hungary. In response, Simonyi-Semadam, the Hungarian Prime Minister, invited a British fact finding mission to Hungary. A joint delegation of the T.U.C. and the Labour Party, headed by Josiah Wedgwood, was appointed,¹⁰² visited Hungary in May and published their report in June 1920. The allegations against the Hungarian régime were grave:

1. political persecution of all who do not support the Horthy rule;
2. suppression of Trade Unionism and the right to strike;
3. anti-Semitism;
4. massacres, executions, and imprisonments, both under form of law and without form of law;
5. torture of prisoners and ill-treatment in prisons;
6. detention for long periods without trial.¹⁰³

The delegation was particularly concerned about the attitude of British representatives in Hungary. The conclusions of the inquiry were mixed. They declared that '[i]n view of the evidence supplied to us, we believe that there is a "Terror" in Hungary.' At the same time, it was judged that the illegal acts were not carried out at the instigation of the Hungarian government. Rather, they were 'unable to control it.' They found the government's own measures to be excessively rigorous, but not anti-Semitic. Nonetheless, they were scathing in their criticism of Horthy, whose admiration for Hédjás and Prónay they found astonishing, and of Hohler, who had issued a statement on 21 February declaring that 'while [...] there are, no doubt, ill deeds done, there is nothing in the nature of a terror.' The inquiry asserted that the Supreme Council had a 'special duty to the Hungarian people as well as sufficient justification for intervening in the internal affairs of Hungary,' because it had refused to allow a Habsburg king in Hungary, had recognised Admiral Horthy as Regent, and brokered the formation of the Huszár government. Once Clerk had left, the British delegation explained, the socialists had to withdraw from the government. More controversially, in reference to the Cuninghame-Böhm talks which had taken place in Vienna to facilitate the ousting of Kun's government, the Report argued that

it was Sir Thomas Cunningham [*sic*] who drew up, with Herr Böhm, towards the end of last July, the terms of surrender of the Commune. [...] Under the seventh [point] all political persecutions, from either the Right or Left, were to be immediately stopped. The Communists carried out their part of the bargain. We think that the British Government is bound to honour the bargain of their representative [...]

Commenting on the White Paper (Command 673), and the Labour-T.U.C. Report, the experts of the newly organised Central Department of the Foreign Office judged that the British government was not bound by Cuninghame's talks. Alexander Cadogan concurred with reservations: 'The only point on which it might be desirable to lay papers wd. be our responsibility in regard to Agoston & Haubrich. But I hope this may be unnecessary.'¹⁰⁴

In the spring of 1920, after the first parliamentary elections, Péter Ágoston and József Haubrich, two former commissaries of Béla Kun's directorate and later members of the trade union government, were indicted in Budapest, ostensibly for misappropriating public funds, but the trial was clearly a political one. In the summer of 1920, Colonel Wedgwood raised questions in Parliament about British responsibility for these men, since they were associated with Vilmos Böhm during the latter's negotiations with Cuninghame in Vienna, and a series of dispatches also dealt with this question. Among others, Causey, the American military representative at the time of the Romanian entry into Budapest, remembered that 'Messrs. Agoston and Haubrich [Haubrich] only stayed on in Budapest owing to representations of [Causey] and General Gorton who were anxious they should keep [trade union] Government going.'¹⁰⁵ Ágoston's lawyer requested that Cuninghame be heard as witness during the trial.¹⁰⁶ Permission for this was refused by the Foreign Office. General Gorton obtained an undertaking from Horthy to remit their sentences should they be sentenced to death.¹⁰⁷ In Cadogan's view, the socialists 'only had a *moral* claim on the Entente for protection against acts of political vengeance.'¹⁰⁸ Cecil Harmsworth, the Under-Secretary of State for foreign affairs, acknowledged that 'we have often intervened in Hungary and Horthy himself might perhaps see the advantage of making a large and handsome concession and so obviating the necessity for the pin-pricking policy, which, however unwillingly, we have pursued in the past.' Crowe and Hardinge opposed official intercession on behalf of the two accused men.¹⁰⁹ In a compromise move, Curzon telegraphed to Athelstan-Johnson in Budapest: 'Please impress unofficially upon the Hungarian Prime Minister the great harm that will be done to Hungary's reputation abroad if there is any suspicion of polit-

ical reveng[e] about this trial.¹¹⁰ Count Teleki, the Hungarian Prime Minister, assured Athelstan-Johnson that 'principles of justice and mercy' will prevail at the two men's trial,¹¹¹ Wedgwood 'abandon[ed] his idea of initiating a debate on Hungary.' Regardless of the limited British intercession, the two socialists were finally sentenced to death at the end of December 1920. Their sentences were commuted to life imprisonment, and they were exchanged for Hungarian officers held in Russia in 1922. Ágoston emigrated to England, and then to France in 1924. Limited official British intercession was only exercised in the cases of Ágoston and Haubrich, with whom they had had direct contacts when Kun was in power.¹¹²

The prominent Hungarian liberal academic in exile, Oszkár Jászi, later blamed the failure to create real democracy in Hungary on the blunders of British diplomacy.¹¹³ Jászi's verdict was harsh. British diplomacy was not prepared to enforce Wilsonian principles within the borders of a sovereign state, it was merely interested in seeing that the new states system in Europe got off to a start which was acceptable to them.

1.4 THE KARLIST COUP ATTEMPTS, PLEBISCITE

According to Thomas Hohler, '[t]he history of Hungary during 1921 has been so complicated by an almost uninterrupted chain of crises,' that it was 'extremely difficult to sub-divide its events into various headings.'¹¹⁴ The most prominent of these crises were Charles IV's attempts to reoccupy his throne in Hungary. Charles, who had not been officially deprived of his Hungarian royal title, made his first foray into Hungary in late March 1921. This came close on the heels of promising negotiations held between Count Pál Teleki, the then Hungarian Prime Minister, and Edvard Beneš in Bruck, Austria. The two sides had approached each other from an almost unbridgeable distance. The main subject on Teleki's agenda was large-scale territorial rectification in accordance with the sentiments expressed in Millerand's *lettre d'envoi*. Beneš denied knowledge of the Millerand letter, and when he was confronted with it, he declared that he could not be bound by it because it did not constitute a part of the peace treaty. The Czechoslovak Foreign Minister only wished to tackle

the economic issues affected by the erection of new frontiers in Central Europe. As Teleki was a recognised expert on the economics of the Danube basin, the subject that concerned Beneš the most, the talks could just have achieved agreement on some formula. This was thwarted when, due to Charles's entry to Hungary, Beneš abandoned the discussions.

The British suspected yet another French conspiracy behind the event. While the circumstances of the incident are well known, there still remain unanswered questions. For instance, neither the French, nor the British, in spite of their likely prior knowledge of Charles's impending journey, did anything as energetic to prevent the visit as they did in order to dislodge him from Hungary. Hohler interviewed U. Grant-Smith, the U.S. Commissioner in Budapest,¹¹⁵ who had witnessed Charles's arrival in western Hungary, and heard him declare that 'the King had received assurances that he would be welcomed, both by his late subjects and also by at least one member of the Great Entente,¹¹⁶ a likely reference to France. The ex-king insisted on pursuing his way to Budapest, where Horthy induced him to leave, whereupon he returned to Szombathely (near the Austrian border), and lingered there for another week before leaving the country on 6 April. It is probable that Charles's occupation of the vacant throne of an emasculated country like Hungary would have had next to no consequence to the power politics of Europe. The name of the Habsburgs, however, became associated with the *status quo ante bellum*, and with war guilt. In spite of Horthy's refusal to cede power to Charles, Hungary's new neighbours maintained a relentless front of protest. In Prague, Couget, the French Minister, observed that the incident had damaged the budding process of amelioration in Hungaro-Czechoslovak relations.¹¹⁷ In addition, the coup attempt indirectly exacerbated tensions in the region by strengthening the hand of the right-wing officers of the Hungarian army, who were adamantly opposed to the return of the Habsburgs. Take Ionescu, the Romanian Foreign Minister, informed Beneš that he had become persuaded of the necessity to sign 'avec la Tchéco-Slovaquie une convention militaire et une alliance formelle analogues à celles qui existent entre ce pays et la Yougo-Slavie.'¹¹⁸ Thus, the Little Entente's ring around Hungary was completed in the wake of the attempt. Hohler lamented that Hungary 'has not a friend, and is either condemned, hated or suspected.'¹¹⁹ He tried to excuse the clumsiness of

Hungarian foreign policy by the fact that 'with all its antiquity, [Hungary was] an entirely new country so far as foreign affairs were concerned. [...] Thus, there is incredible inexperience and a great lack of capable officials.'

As a result of the violent agitation that shook Hungary, the government resigned, Count István Bethlen was charged, on 14 April 1921, with the formation of a new government, and this inaugurated a new chapter in the interwar history of the country. The Transylvanian aristocrat's level-headed approach to the Treaty of Trianon and his known British sympathies, prepared a positive reception for Hungary's application for membership of the League of Nations in May 1921. Bethlen was also in favour of a regional solution in Central Europe. At Marienbad, he proposed a Czechoslovak–Hungarian–Austrian customs union. It is difficult to appreciate how far Bethlen's approach, which tallied with the attitude of the Foreign Office, was aimed at wooing the British, and to what extent he was genuinely prepared for reconciliation, but the Central Department appreciated his initiatives. It was in this period, that the Foreign Office started to come round to respecting the Hungarian position, and began to accord equal weight to the appeals and explanations arriving from Prague and Budapest. While both Clerk and Hohler had grown attached to the radically different political auras of their respective posts, they both argued that a rapprochement between Hungary and Czechoslovakia would enhance the opportunities of British trade in the region.

The hopes raised at Marienbad were soon eclipsed by a conflict characteristic of the politics of Central Europe at the time. The Austrian chancellor Karl Renner had made it a condition for any deal with the Hungarians that they ceded the west-Hungarian province of Burgenland to Austria '*in toto*.'¹²⁰ Hungary had refused to relinquish the territory 'with a general resemblance to Northamptonshire,'¹²¹ which was awarded by the peace treaty to Austria, and at the same time, demanded the withdrawal from Baranya County the remaining Yugoslav occupying troops, who had entered Hungary after the collapse of Béla Kun's dictatorship in the late summer of 1919. As the Yugoslavs procrastinated, Hungarian detachments under the command of Gyula Ostenburg-Moravek, Iván Héjjas and Pál Prónay kept the situation volatile in the disputed province, eventually declaring an autonomous entity called the 'Banat of the

Leitha' there, thus preventing its handover to Austria. Whereas Bethlen and his government officially dissociated themselves from the officers, they used the situation as leverage in their talks with the West. The Little Entente interpreted this as Hungarian approval '*ouvertement les événements de Burgenland*.'¹²² Though Hohler painted a darker picture than really existed when he wrote that if no solution was found the 'Slav races' will advance on Hungary, and that would be '*finis Hungariae*,'¹²³ the situation was grave. Curzon declared that the British attitude to Hungary's accession to the League of Nations depended on a speedy resolution of the Burgenland crisis by the Bethlen government. Beneš's offer to mediate between Budapest and Vienna was accepted in London. However, the fact that the Cannes Conference took place without the Entente's small allies thwarted Czechoslovak efforts to sort out the problem. With Italian help, Bethlen managed to persuade the powers to convene a conference in Venice for 11 October 1921, where he undertook to disarm the unbridled free corps in exchange for the possibility of an official plebiscite to be held in the town of Sopron, to decide whether its inhabitants wished the town to be part of Austria or Hungary.

The conflict was, however, rekindled by the second, more serious, coup attempt by Charles, which was accompanied by armed force. The ex-king's departure from Switzerland by air and his arrival in western Hungary on 22 October was reported to Curzon in an urgent telegram from Berne.¹²⁴ As the ex-king's train proceeded towards Budapest, escorted by Hungarian officers and receiving oaths of allegiance along the way from local army chiefs, the Romanian, Yugoslav and Czechoslovak ministers in Paris considered that, together with Charles's second arrival in Hungary, the events in Burgenland constituted '*une attaque contre les Traités de Paix*.'¹²⁵ This time, the initial response from the Western allies and the Little Entente was more concerted than at Easter. On the day of Charles's arrival, Berthelot sent telegrams to Budapest, London, Rome and Vienna, in which the French mission in Budapest was ordered to organise a united stance against the Habsburg threat in conjunction with the Italian and British missions.¹²⁶ However, once the Little Entente announced an elaborate plan to march into Hungary from all directions with the ultimate aim of occupying Budapest, the attitude of London diverged from that expressed in Paris. While Curzon con-

curred with Beneš's demand for the definitive dethronement of the House of Habsburg in Hungary, he deplored the sabre rattling. The French were less explicit on the matter. On 25 October, Nosky Daeschner, the French Minister, reported from Bucharest that the Czechoslovak chargé d'affaires in Bucharest, Ferdinand Veverka, had proposed to Take Ionescu, the Romanian Foreign Minister, that, to avoid military intervention, Hungary must comply with the joint ultimatum of the Little Entente. The document contained the following provisions:

1. proclamation immédiate de la déchéance des Habsbourg;
2. [confirmation] des décisions de la Conférence de Venise;
3. expulsion des membres de la famille;
4. remboursement des frais de (mobilisation);
5. participation directe et effective de la Petite Entente aux opérations de (contrôle) du désarmement.¹²⁷

Horthy, who, backed by the bulk of the Hungarian army and the influential smallholders, never sympathised with Charles's ambitions, took resolute steps. Charles was arrested and was ordered by the Hungarian government to abdicate.¹²⁸ The announcement from Budapest divided the Little Entente; while the Romanians halted their preparations for mobilisation,¹²⁹ the Czechoslovak and Yugoslav governments remained implacable.¹³⁰ Unlike the Quai d'Orsay, the Foreign Office expressed abhorrence at the prospect of war in Central Europe. Curzon deprecated the demands, 'including surrender of ex-Emperor,' of Hungary's neighbours that went beyond the abdication and removal of Charles. 'Invalidation of Venice agreement,' Curzon declared, 'does not [...] follow from recent events [and Hungarians] could not be expected to pay for measures taken unnecessarily after the crisis is past.'¹³¹ Crowe also found these outbursts on the part of Hungary's neighbours 'excessives et dangereuses,'¹³² and took steps to prevent the Conference of Ambassadors from adopting resolutions reflecting the extreme demands of Czechoslovakia and Yugoslavia.¹³³ To facilitate the removal of Charles from Hungary, the British Admiralty ordered a 'British river flotilla [...] to proceed to Budapest.'¹³⁴ Perhaps most significantly for the Czechs, Michael Spencer-Smith, a director of the Bank of England concerned

with loan negotiations with Czechoslovakia, warned that the belligerent attitude of the Czechs made it impossible for the West to assist Czechoslovakia financially.¹³⁵ Meanwhile it was reported from Budapest that the mobilisation of reservists born between 1895 and 1899 had been carried out in Czechoslovakia between 27 and 31 October, and action will be launched unless Hungary satisfied all demands by 1 November.¹³⁶ Curzon accused the Czechs of 'trumping up pretexts to dismember Hungary,'¹³⁷ and declared that it was 'ridiculous of Czechs and Yugoslavs with their vast armies to pretend that they are now in any danger from Hungary, and their attempts to precipitate a crisis, after declaring themselves satisfied with solution of the Habsburg succession question are dishonest.'¹³⁸ But, by this time, the crisis had already been defused, and Beneš was preparing to relent after the Hungarian Parliament had passed, on 1 November, a law declaring the forfeiture of the authority of all Habsburgs in Hungary. Clerk did his best to defend his Czech hosts, accepting Beneš's verdict that 'there was now no shadow of misunderstanding'¹³⁹ between the Czechoslovak and British governments. The ex-king and his wife Zita were handed over to the representatives of the Western Allies, whereupon they were transported to the island of Madeira, where Charles subsequently died on 1 April 1922.

The Little Entente, and especially the foreign policy of Edvard Beneš, emerged with an adverse image from the Karlist *putsch* débâcle. Clerk's elaborate explanation of Beneš's behaviour during the crisis was, according to Cadogan of the Central Department, 'not very convincing, [...the] result is disproportionate to the trouble caused.' In connection with the as yet unresolved problem in Burgenland, Cadogan asserted:

M. Benes's avowed objection to the Venice Protocol is that it modifies the Peace Treaty. But what sort of settlement had he in view that would not have done as much? It looks almost as if his idea of "mediation" was the enforcement of the Treaty at the point of Czech bayonets.¹⁴⁰

The plebiscite in the town of Sopron, which was conducted on 14–16 December, decided in Hungary's favour, whereupon the Hungarian government speedily disarmed and disbanded the irregulars in the west

of Hungary who were getting increasingly out of control. This was a successful conclusion to a period of brinkmanship on the part of the Bethlen government, whose main objective was the peaceful consolidation of the post-war system in Hungary. Militant demands for territorial revision were put on the back burner, while Hungary resumed its role as a factor of stability in Central Europe.

The combination of these events led to a reappraisal by the Foreign Office of the balance between Prague and Budapest to the benefit of the latter. This could not be attributed to the diplomacy of Hohler, whose advocacy of British-Hungarian friendship often lacked substance,¹⁴¹ and remained coloured by his pre-war memories. On one occasion, Hohler lamented the conditions in the little state, a shadow of its former self, which was dominated by 'petty agricultural people.' But for traces of 'administrative aptitude [and] refinement derived from [...] memories of the past,' in Hohler wrote, Hungary could well be on its way to 'barbarism', hardly 'differing [...] from the rest of the Balkans.'¹⁴² It is important to note that while Sir George Clerk's dispatches contained, on the whole, more verbal subtlety and suggested a higher degree of diplomatic reliability, they could not save Anglo-Czechoslovak relations from deterioration in 1921.

1.5 THE END OF POLITICS

The years from 1922 to 1925 witnessed no intensive diplomatic exchanges and virtually no conflict¹⁴³ in the relations between Great Britain and Hungary. The Foreign Office files on Hungary became thinner and thinner each year, and were usually concerned with minor matters, such as pre-war personal debts, private claims, the fate of Empress Zita following her husband's death, or were prepared by the D.O.T on financial or commercial issues. A Hungarian delegation was invited to Genoa in March 1922, where, for the first time, the leaders of Hungary met the representatives of the victorious powers on equal terms. A process was initiated there, spearheaded by the British, to conclude bilateral agreements between Hungary and each of its neighbours. Hohler regretted that 'ill-feeling on both sides of the frontier prevented any practical effect being given to the proposals initiated at Genoa for [...] a

trade convention with Romania.' On the other hand, conversations between Beneš and Count Miklós Bánffy, the Hungarian Foreign Minister,¹⁴⁴ led to progress in commercial relations later in the year. Thanks to strong British backing, Hungary was admitted to the League of Nations on 18 September 1922 by a unanimous vote.¹⁴⁵

Thereafter, while the British remained sympathetic to the existing Hungarian government, the real focus of British involvement shifted from the purely diplomatic sphere to the theatre of financial relations where the diplomats, both in London and in Budapest, took the back seat and only participated as accessories or facilitators. As John Balfour observed, 'apart from the loan negotiations, there is [...] little of importance to record regarding the foreign relations of Hungary during 1923.'¹⁴⁶ Barclay had the same to say about 1924.¹⁴⁷ The Central Department concluded that the successful launching of the Hungarian loan in 1924 ended the 'unsettled state of affairs, which threatened to land Hungary in financial and political chaos,' inaugurated a sense of normalcy and 'recognition of the permanency of the conditions laid down by the Peace Treaty.'¹⁴⁸

1.6 AN EXCEPTION: INTERNAL AFFAIRS ONCE MORE

At the end of October 1922, when Britain's wartime coalition dissolved and new elections were to be held, the Hungarian press, as reported by Hohler, surmised that the Labour Party, if elected, might be more likely to allow changes in the status quo in Central Europe.¹⁴⁹ Cadogan correctly observed that '[t]he Hungarians are too ready to assume that the Labour Party, if in power, would scrap the Peace Treaties.' He also predicted that 'Labour wd. be by no means friendly to Hungary under her present rulers,' while Miles Lampson, Head of the Central Department of the Foreign Office, minuted that 'Hungary is probably the most undemocratic country on the Continent!'¹⁵⁰

One year later, when Labour came to power, the controversy about potential British responsibility for the character of the Hungarian régime was reopened. Arthur Ponsonby, parliamentary Under-Secretary at the Foreign Office, prepared an extensive memorandum on the lapse of demo-

cratic rights and the rule of law in Hungary. He recalled that 'Article 13 of the fundamental law of 1920 lays down [in Hungary] that the re-election of the National Assembly should be carried out under the same basis as that of the first National Assembly.' In spite of this, continued Ponsonby,

Count Bethlem [*sic*], by Order in Council issued in February 1922, ignoring this provision, deprived one third of the electors of their right to vote and abolished secret ballot in rural constituencies. [...] It appears herefrom that the present National Assembly is lacking all legal basis.¹⁵¹

Ponsonby pointed out that in contravention of the 'agreement made with the Hungarian political parties [...] by Sir George Clerk, as representative of the Allied Powers in November 1919,' Hungary had restricted the liberty of press, of association and formation of trade unions. Short of enforcing the Clerk agreement, Ponsonby argued that it should be 'possible and desirable to enforce Articles 55, 58, 76, 355 of the Hungarian Peace Treaty, which grants protection to personal liberty and minority rights [...]'¹⁵² and Labour.¹⁵³ The career diplomats and officials of the Foreign Office were opposed to Ponsonby's suggestions, which, in their view, opened up the 'vista of so many complications,'¹⁵⁴ and underlined the daunting difficulty of their enforcement. The authors of the memorandum declared: 'All things considered the Department are bound to point out that unless His Majesty's Government are prepared to embark on and pursue a policy of direct intervention in the domestic affairs of Hungary, it may be of doubtful wisdom to endeavour to hold them to the condition laid down in 1919.'¹⁵⁵ Lampson minuted that by agreeing to Clerk's points, the Hungarians 'cannot be considered to have entered into perpetual servitude vis-à-vis the Allies.'¹⁵⁶ Hohler—judging from the tone of his report—reluctantly interviewed both Horthy and Bethlen on the issue. In Horthy's opinion, 'the bulk of the [Hungarian] people are not capable of using the suffrage properly.' As a 'servant' of the Hungarian people, the regent felt duty bound not to 'leave it to the hazard of an election to decide who shall administer it.'¹⁵⁷ Examined under the contemporary conditions of Hungary, Horthy's candid confirmation of the British Labour politicians' view that the Hun-

garian system was undemocratic was meant to be interpreted as the regent's determination to keep his country's consolidation on track by excluding both the left and the extreme right wing from politics. Bethlen, the main exponent of the consolidation of the Horthy régime, told Hohler that he could only answer the question regarding the recent restrictions as a private person, since international treaties, as well as the Covenant of the League of Nations, guaranteed 'complete independence and sovereignty' for Hungary. Under these reservations, the Hungarian premier declared that in his interpretation 'the decree under which what we may call the "Clerk elections" were held was in virtue of a law passed by the Government of M. Friedrich, which had legal duration only for two years.'¹⁵⁸ Howard Smith, First Secretary at the Central Department, found the explanation satisfactory, minuting that Bethlen's attitude was 'the only one he could take up, and he was very friendly.' Lampson, toning down his sharp criticism of the Horthy system expressed a year before, concurred, adding that 'no government, Hungarian or otherwise, could bind its successors in such a way.' Lampson also remarked that '[i]ncidentally not even in this country have we got universal franchise,' and, joined by Crowe, concluded: 'Perhaps the matter may now be allowed to drop? I do not think that we shall gain anything by pursuing it.' Only Nicolson was disappointed by the failure to obtain some purchase on the internal politics of Hungary. He commented that Bethlen 'gave no satisfaction at all to our enquiry, & has left the matter just as bad, if not worse, than it was before.'¹⁵⁹

The sum of British policy towards Hungary under the Labour government, given its decisive endorsement of Montagu Norman's loan scheme for Hungary, was undoubtedly positive. The ideological compunctions of some party officials were lost amidst the general feeling that helping Hungary to stand on its feet was in the British interest.

1.7 HUNGARY AND EUROPEAN SECURITY

By mid-1925, right-wing parties and groups in Hungary began to raise the temperature of their campaigns for territorial rectification. This was partly due to the fact that Hungary had acquired self-confidence

through economic stabilisation, partly to the ostentatious behaviour of the Little Entente, but also to the British rejection of the Geneva Protocol and the embrace by Britain of the alternative German offer for a Rhine pact. Sir Colville Barclay, who had replaced Hohler on 28 June 1924,¹⁶⁰ reported from Budapest that '[t]he rejection of the Geneva Protocol by Great Britain was received here with enthusiasm' as a recognition of the fact that peace cannot be maintained by the victors only without the adherence of the other parties in Europe. British policy was welcomed in Budapest as 'a check to French aspirations, and also as marking a step towards a revision of the peace treaties.'¹⁶¹ Remarks by British statesmen regarding the inefficacy of the peace treaties were reprinted or rebroadcast in Hungary with amplified import. Little attention was paid to the fact that when Stanley Baldwin told the House of Commons on 23 March 1925 that 'peace in the west of Europe has not existed from the day on which the signatures were appended to the Treaty of Versailles', no endorsement was given to any specific revision of Central or Eastern European borders. One of the revisionist organisations which began to voice their demands more publicly, the *Magyar Nemzeti Szövetség* (Hungarian National Association), headed by Baron Zsigmond Perényi, an intimate friend of Count Bethlen, passed resolutions, in which they predicated their opposition to the peace treaties on statements by 'unprejudiced [British] statesmen,' such as Baldwin, and Lloyd George. One of their resolutions argued that, because of these statements, 'calling for the redress of the injustice suffered by Hungary [and] a demand for revision [...] can no longer be called irredentism.' The Central Department viewed these declarations as completely undesired by-products of British politics. Howard Smith argued that '[t]he Hungarians are great fools to indulge in this kind of propaganda. It keeps alive the jealousy and fear of the Czechs and Roumanians.'¹⁶² The First Secretary of the Central Department did not exclude revision 'in some form or another,' but, in his view, 'its advent is retarded by such talk as this.' On another report of the same nature Howard Smith minuted that '[t]he Hungarians can do nothing situated as they are but the Czechs and Roumanians are in terror of them. They might have cause for fear if at some future date Germany came to Hungary's aid, but this is far off.'¹⁶³ A few, Lampson among them, understood the way Western security

talks affected the security of the East. While John C. Sterndale Bennett suggested that the Hungarians could recover lost territories by keeping quiet, as 'threatened men live long & and the same may be true of threatened boundaries,'¹⁶⁴ the most perspicacious comment was appended to the correspondence by the head of the Central Department: 'The Hungarians think that Germany, over the Polish frontier, has succeeded in establishing the position that her frontiers on the east are not immutable. If Germany has been successful in that, why not Hungary?' Lampson pointed out to Barclay that 'he would do well to caution Count Bethlen not to be silly: otherwise there would be trouble.'¹⁶⁵

While some right-wing Hungarian revisionist organisations were already active in 1925, the Bethlen government remained, until 1927, when Mussolini put Italy's weight behind the Hungarian revisionist cause, true to their programme of reconciliation and the use of international mechanisms in search of rectifications of the peace treaty. At the time of Locarno, however, it was difficult not to indulge in fantasies. The Foreign Office hoped to gain as much political capital as possible out of the recent Western agreement and the Franco-Polish and Franco-Czechoslovak conciliation and arbitration treaties. Three months after the signature of the Locarno agreements, at a discussion among Chamberlain, Lampson, and Bethlen at Geneva, the parallels between the grievances of Germany and those of Hungary were recognised. Bethlen accepted the principle that underlay Locarno and expressed willingness to negotiate with the Little Entente with a view to a similar outcome.¹⁶⁶ The *aide mémoire*, prepared after the meeting, also asserted that 'Hungary had every right to retain her hope of a later readjustment of her frontiers.'¹⁶⁷ An unsigned minute suggested that 'arbitration between Germany and Poland' could logically entail a 'Hungarian Locarno.' Aveling celebrated the news of 'Bethlen's conversion to the pact principle,' and declared it a 'striking diplomatic triumph, one which may well open up a new era in Central European politics.'¹⁶⁸ Was the implication that the Foreign Office contemplated waiving its objections to Eastern commitments in the case of Hungary and underwrite its security in the context of an 'Eastern Locarno?' The intentions could not be tested before, in the later twenties, the British turned irrevocably away from the region, and Hungary drifted closer to the Italian and German spheres.

NOTES

- 1 For details of Sir George Clerk's missions to Bucharest and Budapest also see Miklós Lojtkó, 'Missions Impossible: General Smuts, Sir George Clerk and British Diplomacy in Central Europe in 1919' in Michael Dockrill and John Fisher, eds, *The Paris Peace Conference, 1919. Peace without Victory?*, Series title: *Studies in Military and Strategic History*, Basingstoke: Palgrave in association with the Public Record Office, 2001, pp. 115–39; and György Ránki, 'A Clerk-misszió történetéhez' [To the History of the Clerk Mission], *Történelmi Szemle* (Historical Review) 28, (1978), pp. 156–87.
- 2 The history of British involvement in the affairs of the Hungarian Soviet Republic is set out in detail in my M.Phil dissertation, titled 'Britain and Hungary 1918–1920' (University of Cambridge, August 1996).
- 3 Montgomery-Cuninghame reported these contacts from Vienna to the British Foreign Secretary, A. J. Balfour in Paris. His telegram, dated 7 August 1919, read as follows: 'Markgraf Pal[il]avicini and Count Csaky associates of the Szeged Government have been invited by the Roumanians to go to Budapest and leave to-day.' (Public Record Office, Kew, Surrey, hereafter: PRO, FO 608/18/64/1/-1/17488) Both the trade union government in Budapest and the provisional counter-revolutionary government at Szeged, in the south of Hungary, received British diplomatic backing, in separate efforts to bolster elements capable of displacing Kun's communist régime. See Colonel Sir Thomas Montgomery-Cuninghame; *Dusty Measure, A Record of Troubled Times* (London: John Murray, 1939) and Ellis Ashmead-Bartlett; *The Tragedy of Central Europe* (London: Thornton Butterworth Ltd, 1923).
- 4 Butler to Sir William Goode, 20 September 1919, FO 371/3516, 135267.
- 5 The mission of Admiral Troubridge, as Chief of the International Danube Commission, came to an end on 25 July 1920. A new International Danube Commission was set up with its headquarters in Paris, and with civilian French administrators operating in Budapest. (Richard J. E. Humphreys, British Commercial Commissioner for Hungary, to Curzon, 26 July 1920, FO 371/4871/-C3611/3611/21) The French 'take-over' was part of a concerted French commitment towards Hungary at the time. See more on the subject in section (I) 1.2.
- 6 FO 608/8/36/2/1/19193; 608/14/46/1/12/17901; Cuninghame to Balfour, 18 August 1919, E. L. Woodward, Rohan Butler, W. N. Medlicott, D. Deakin, G. Bennett et al eds. *Documents on British Foreign Policy 1919–1939, First Series* 27 vols. London: HMSO, 1947–1986, (hereafter: *DBFP*), I/VI, doc. 116, p. 158. Butler, who arrived in Budapest on 12 August, took personal charge of the Allied food, medical relief and revictualling operations in Hungary.
- 7 Cuninghame to Balfour, 4 August 1919, FO 608/14/46/1/12/17206.
- 8 Paul Chester Latawski, *Great Britain and the Rebirth of Poland, 1914–1918: Official and Unofficial Influences on British Policy*, Indiana University Ph.D. dissertation, University Microfilms International, 1985, pp. 72.

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- 9 See documents 28–32, 34–49 and 51 in DBFP, I/1.
- 10 Sibyl Crowe and Edward Corp, *Sir Eyre Crowe, GCB, GCMG, KCB, KCMG, 1864–1925* (Braunton: Merlin Books Ltd, 1993), p. 350.
- 11 ‘Memorandum by Mr. Leeper on the Roumanian Situation.’ 29 September 1919, in Crowe to Curzon, 6 October 1919, DBFP, I/VI, doc. 201, p. 274.
- 12 Francis Deák, *Hungary at the Paris Peace Conference. The Diplomatic History of the Treaty of Trianon* (New York: Columbia University Press, 1942), pp. 138–43.
- 13 John Anthony Hemery, ‘The Emergence of Treasury Influence in British Foreign Policy 1914–1921’ Ph.D. dissertation, Cambridge, 1988, Ph.D. 15140, Part III: The Treasury and Postwar Foreign Affairs, 1919–1921, pp. 260–402 *passim*.
- 14 The term ‘successor state’ is often used in the limited sense of the newly created or enlarged states, which benefited from the break-up of the Austro-Hungarian, German and Russian Empires. In this work, the expression also covers Austria and Hungary, as these were also newly created states compared to the form in which they had existed before the First World War.
- 15 Harry Hill Bandholtz, *An Undiplomatic Diary*, edited by Friedrich Krüger, (New York: Columbia University Press, 1933), pp. 125–36. Conversely, Frank Rattigan, Britain’s influential chargé d’affaires in Bucharest, welcomed Clerk’s initially nonchalant approach to the Romanian requisitions in Hungary.
- 16 Clerk to the Supreme Council, 7 October 1919, Deák, *Hungary...*, pp. 503–12.
- 17 Clerk even wrote that ‘[t]he Roumanian who is after all a Balkan and therefore an Oriental and who has been pillaged and looted by the enemy and by his Russian ally sees here in the occupation of Hungary an opportunity which he will consider himself a lunatic to forego.’
- 18 Lajos Varga, Garami Ernő, *Politikai életrajz. [Ernő Garami, a Political Biography]*, (Budapest: Napvilág Kiadó, 1996), p. 323.
- 19 For this, they were later lambasted by Clerk as having ‘about as much sense of political realities as a stuffed dog.’ Clerk soon came to regard Friedrich as a ‘young meg[al]omaniac, [...] a white Béla Kun.’ Clerk to Crowe, 16 November 1919, DBFP, I/VI, doc. 284, p. 380.
- 20 Supreme Council to Friedrich, draft telegram, October 1919, *Papers Relating to the Foreign Relations of the United States, 1919, The Paris Peace Conference* 13 vols. Washington, D.C.: Department of State, 1942–47 (hereafter: *FRUS, PPC*), VIII, Appendix C to HD-68, pp. 586–87; Bandholtz, *Undiplomatic Diary*, p. 8.
- 21 FO 371/3516/141668/f1193.
- 22 FO 371/3516/141668/f1193; Deák *Hungary...*, pp. 134–50, 473–512; H.W.V. Temperley, ed, *A History...*, IV, pp. 230–35.
- 23 FO 371/3516/139916/f1193.
- 24 Clerk to Crowe, 1 November 1919, FO 608/17/56/1/4/20105; *FRUS, PPC*, VIII, Appendix B to HD-83, pp. 947–48.
- 25 Thomas L. Sakmyster, *Hungary’s Admiral on Horseback: Miklós Horthy, 1918–1944* (New York: Columbia University Press, 1994), pp. 1–28.

- 26 Clerk to Crowe, 1 November 1919, FO 608/17/56/1/4/20105; *FRUS, PPC*, VIII, Appendix B to HD-83, pp. 947–48.
- 27 'The Situation in Hungary', Note from the French Delegation, n.d., *FRUS, PPC*, VIII, Appendix C to HD-82, pp. 919–20.
- 28 *Ibid*, p. 948.
- 29 Supreme Council to Clerk, 5 November 1919, *Ibid*, p. 959.
- 30 Minutes of the meeting of the Supreme Council, 4 November 1919, *Ibid*, p. 939.
- 31 Ernő Garami, *Forrongó Magyarország* [Hungary in Revolt], (Leipzig–Vienna: Pegazus, 1922), pp. 174–77.
- 32 'Draft of a Note to the Roumanian Government.' 13 November 1919, *FRUS, PPC*, IX, Appendix F to HD-91, pp. 154–57.
- 33 By early December, following further pressure, the Romanian army withdrew to the line of the Tisza after the new government of Alexandru Vaida-Voevod had been installed in Bucharest. The full withdrawal from Hungary of all foreign occupying forces was only completed in the late summer of 1921.
- 34 Gyula Juhász, *Magyarország külpolitikája 1919–1945* [The Foreign Policy of Hungary 1919–1945]. (Budapest: Kossuth Könyvkiadó, 1969), p. 42.
- 35 *Pester Lloyd* interview with Clerk, 28 October 1919, FO 608/17/56/1/4/20148.
- 36 Apponyi, who considered applying for Czechoslovak citizenship to keep estates assigned to the new state, was summoned to Budapest from Pozsony. [Slovak: Bratislava] (György Ránki, 'A Clerk-misszió történetéhez. *Történelmi Szemle* 28, (1978): p. 184.)
- 37 Clerk to Supreme Council, 17 November 1919, FO 608/17/56/1/4/20527.
- 38 FO 608/17/56/1/4/20785.
- 39 FO 371/3517/159121/f1193.
- 40 Clerk to Crowe, 25 November 1919, *DBFP*, I/VI, doc. 307, p. 411.
- 41 E.g. FO 371/9902/C3619/21; also see Gerald James Protheroe, 'Watching and Observing: Sir George Clerk in Central Europe 1919–1926,' unpublished Ph.D. dissertation, (University of London, 1999), pp. 89–90.
- 42 Clerk to Supreme Council, 29 November 1919, Deák, *Hungary...*, p. 535.
- 43 On 7 December, Lord Curzon, acting Foreign Secretary in London for the duration of the conference, minuted on Clerk's final report: '[Sir George Clerk's] Report is a valuable picture of S.E. Europe showing us in passing what brutes the majority of these little states we have created are.'
- 44 'Interim Report by the Inter-Allied Commission on Relief of German Austria,' by Sir William Beveridge, 17 January 1919, Lloyd George Papers, F/197/5. Selections from the report are printed in Miklós Lojkó, ed, *British Policy on Hungary 1918–1919. A Documentary Sourcebook*, Occasional Papers no. 28, (London: School of Slavonic and East European Studies, 1995), doc. 27, pp. 57–59.
- 45 'The Mission to Austria-Hungary, Report by General Smuts,' 9 April 1919, FO 608/16/56/1/1/6836, also printed with some of its enclosures and the Foreign Office minutes in Lojkó, *British Policy on Hungary 1918–1919*, doc. 84, pp. 135–150;

- and, without enclosures or minutes, in Arthur L. Link, ed., *The Papers of Woodrow Wilson*, 69 vols, (Princeton: Princeton University Press, 1966–1994), vol. 57, pp. 165–75. On the details of the Smuts mission, see Lojkó, ‘Missions Impossible: General Smuts, Sir George Clerk and British Diplomacy in Central Europe in 1919’ in Dockrill and Fisher, eds., *The Paris Peace Conference, 1919. Peace without Victory?*, pp. 115–39.
- 46 Memoranda by Sir Francis Oppenheimer submitted following his mission to Vienna in the latter half of May 1919, Oppenheimer Papers, Box 6/2, Bodleian Library, Oxford.
- 47 Lord Hankey, *Diplomacy by Conference, Studies in Public Affairs 1920–1946* (London: Ernest Benn Limited, 1946), p. 32.
- 48 Inbal Rose, *Conservatism and Foreign Policy During the Lloyd George Coalition, 1918–1922* (London: Frank Cass, 1999), p. 124.
- 49 Anne Orde, ‘France and Hungary in 1920: Revisionism and Railways.’ *Journal of Contemporary History* 15 (1980): p. 476.
- 50 Hohler to Curzon, 9 January 1920, *DBFP*, I/VI, doc. 412, pp. 556–57.
- 51 Hohler to Curzon, 16 January 1920, *DBFP*, I/XII, doc. 52, p. 85.
- 52 Curzon to Hohler, 29 January 1920, *DBFP*, I/XII, doc. 75, p. 103.
- 53 Supreme Council to Apponyi, 6 May 1920, Magda Ádám, György Litván, Mária Ormos, eds, *Documents diplomatiques français sur l’histoire du bassin des Carpates, 1918–1932* 2, août 1919–juin 1920, (Budapest: Akadémiai Kiadó, 1995), (hereafter: *Documents diplomatiques*) doc. 231, p. 522.
- 54 In 1939, the Hungarian Ministry of Foreign Affairs published a compendium of sources (*Papers and Documents Relating to the Foreign Relations of Hungary*, Budapest, 1938–1939), but the collection leaves us without an explanation of the French motives.
- 55 Magda Ádám, ‘Dunai konföderáció vagy kisantant’ (Danubian Confederation or Little Entente). *Történelmi Szemle*, nos. 3–4, (1977): p. 440.
- 56 Although the Romanian government did not declare neutrality, it would not dispatch Romanian troops to fight the Russians in alliance with the Polish army.
- 57 The term ‘Little Entente’ first appeared in the Hungarian press as part of the disparaging criticism of the emerging alliance, but it stuck, and entered universal diplomatic parlance.
- 58 Magda Ádám, György Litván, Mária Ormos, eds., *Documents d’archives français sur l’histoire du bassin des Carpates, 1928–1932* 3, juillet 1920–décembre 1921, (Budapest: Akadémiai Kiadó, 1999), (hereafter: *Documents d’archives*), doc. 1, p. 3.
- 59 Frank Rattigan, the British Minister in Bucharest, sent similar telegrams to the Foreign Office. (E.g. *DBFP*, I/XII, p. 151n.)
- 60 Young to Curzon, 2 March 1920, *DBFP*, I/XII, doc. 120, pp. 150–51.
- 61 Reference to Richard J. E. Humphreys, British Commercial Commissioner for Hungary 1919–1924.
- 62 Young to Curzon, 2 March 1920, *DBFP*, I/XII, doc. 120, p. 152.

- 63 *Ibid.*, p. 153. British firms and even official agencies were regularly obtaining contracts for supplying accessory equipment for the Hungarian military both before and after the signature of the Hungarian peace treaty. In August 1920, the Department of Overseas Trade urgently requested information from the Central Department of the Foreign Office, reporting that the Hungarian 'Hangya Co-operative Wholesale Society wishes to buy 50,000 knapsacks from the [British] Disposals Board, objections?' Alexander Cadogan minuted: 'Treaty allows 35,000 troops only. Why do the Hungarians need 50,000 knapsacks? Ask for explanation.' (18 August 1920, FO 371/4871/C4016/4016/21) In a week's time, having obtained further information, Cadogan drafted the Central Department's reply to the D.O.T.: 'If we can enforce (a) the limitation of the Hungarian army as provided in the Treaty, and (b) the prohibition of the export of war material from Hungary, there is no harm. Perhaps in the circumstances we can put our blind eye to the telescope and say no objection (*in the interest of British trade*). (My italics.) So inform D.O.T. On 28 August, the following clarification was sent to the D.O.T.: 'Urgent. Under Secretary of State satisfied that 50,000 knapsacks is necessary for an army of 35,000.' (FO 371/4871/C4844/4016/21)
- 64 For an account of the way the Hungarians were treated and how they reacted to the peace terms, see Lóránt Hegedűs, *Lesz-e béke?* [Will There Be Peace?] (Budapest, 1920).
- 65 Orde, *France and Hungary...*, p. 477.
- 66 Gábor Bátonyi, 'Britain and Central Europe, 1918–1933,' D.Phil. dissertation, c. 11019, University of Oxford, 1993, pp. 177–78. (The dissertation has been published with some alterations under the same title by the Clarendon Press, Oxford, 1999.)
- 67 Clément-Simon to Millerand, 23 February 1912, *Documents diplomatiques*, doc. 166, p. 365.
- 68 Young to Curzon, 2 March 1920, *DBFP*, I/XII, doc. 120, p. 150.
- 69 *Ibid.*
- 70 Srba Hrvata i Slovenaca.
- 71 Young to Curzon, 2 March 1920, *DBFP*, I/XII, doc. 120, p. 150.
- 72 Fernand Couget (French Minister in Prague) to Millerand, 21 August 1920, *Documents d'archives...*, doc. 60, pp. 69–71.
- 73 Nosky Daeschner (French Minister in Bucharest) to Millerand, 22 August 1920, *Documents d'archives...*, doc. 62, pp. 74–75.
- 74 Millerand to Billy and Panafieu, repeated to Belgrade, Berlin, Bucharest, Budapest, Constantinople, London, Prague, Rome, Vienna, and Washington, 24 August 1920, *Documents d'archives...*, doc. 66, p. 81. There is a slight irony in the fact that Millerand, whose main critique concerned the local action generally, lest it should take the initiative away from the Quai d'Orsay, directed his particular criticism at the possible expansion of Beneš's scheme to include Poland and

- Greece. Beneš, the mainspring behind the organisation, never seriously embraced expansion towards the Vistula or the Balkans.
- 75 Norman Davies, 'Lloyd George and Poland 1919–1920.' *Journal of Contemporary History* 6, 3, (1971): pp. 144, 150, 152–54.
- 76 Orde, *France and Hungary...*, pp. 477–78.
- 77 Magda Ádám, 'A kisantant és Európa, 1920–1929' [The Little Entente and Europe 1920–1929], (Budapest: Akadémiai Kiadó, 1989), p. 72. W. Athelstan-Johnson was acting high commissioner in Budapest from 17 June 1920 to 14 December 1920.
- 78 Count Pál Teleki.
- 79 Fouchet to Millerand, 8 June 1920, *Documents diplomatiques*, doc. 276, p. 587.
- 80 Millerand to Fouchet, 9 June 1920, *Documents diplomatiques*, doc. 279, p. 590.
- 81 Ministère des Affaires Etrangères de la France, Archives Diplomatiques, Série Europe 1918–1929, H. vol. 58, f. 203, quoted in Ádám, *A kisantant...*, p. 72; for a repeated denial see Fouchet to Millerand, 3 July 1920, vol 59, f. 99–101, in *Documents d'archives...*, doc. 8, pp. 10–11.
- 82 Lindley to Curzon, 27 January 1920, *DBFP*, I/XII, doc. 70, p. 100.
- 83 Curzon to Hohler, 19 February 1920, *DBFP*, I/XII, doc. 109, p. 141.
- 84 Lindley to Curzon, 1 June 1920, *DBFP*, I/XII, doc. 161, p. 193.
- 85 Richard Humphreys (British Commercial Commissioner for Hungary) through Athelstan-Johnson to Curzon, 27 August 1920, FO 371/4871/C6124/4122/21.
- 86 Substituting for the British ambassador, the Earl of Derby, at Paris.
- 87 Grahame to Curzon, 29 July 1920, FO 371/4870/C2850/2850/21.
- 88 Phipps (for Curzon) to Earl of Derby, 8 July 1920, *DBFP*, I/XII, doc. 186, p. 221.
- 89 Ministère des Affaires Etrangères de la France, Archives Diplomatiques, Série Europe 1918–1929, H. vol. 58, f. 205, quoted in Ádám Magda, *A kisantant...*, p. 73.
- 90 Humphreys to D.O.T, 18 August 1920, FO 371/4872/C5544/5544/21.
- 91 Vittorio Cerrutti, Italian High Commissioner in Budapest, to Kálmán Kánya, Under-Secretary at the Hungarian Foreign Ministry, 28 June, 3 July 1920, *Papers and Documents Relating to the Foreign Relations of Hungary* vol. I, docs. 369, 433, 581 and 617, pp. 372, 578, 437 and 605–606.
- 92 Athelstan-Johnson to Curzon, 4 July 1920, *DBFP*, I/XII, doc. 184, p. 220.
- 93 This was the reason cited to the Hungarians when both Millerand and Marshal Foch refused to meet the Hungarian peace delegation in Paris. *Papers and Documents Relating to the Foreign Relations of Hungary* vol. I, docs. 550, 559, pp. 555 and 561–62.
- 94 R. W. Seton-Watson to A. W. A. Leeper, 6 July 1920, The papers of R. W. Seton-Watson, the Archives of the School of Slavonic and East European Studies, General Correspondence, Box 14.
- 95 Hohler to Curzon, 30 March 1920, personal letter, Curzon Papers, FO 800/155.
- 96 Earl of Derby to Georges Leygues (French Prime Minister and Foreign Minister), 25 September 1920, in Earl of Derby to Curzon, 8 October 1920, *DBFP*, I/XII, doc. 244, pp. 286–89.

- 97 Athelstan-Johnson reported contentedly that 'towards the end of [1920] a tendency was to be noticed to try and propitiate Great Britain.' Athelstan-Johnson to Curzon, 16 June 1921, FO 371/6140/C12707/12707/21.
- 98 Gusztáv Gratz, *A forradalmak kora, Magyarország története 1918–1920* [The Age of Revolutions. The History of Hungary 1918–1920]. (Budapest: Magyar Szemle Társaság, 1935), p. 317.
- 99 Hungarian Prime Minister, 1 March 1920–26 June 1920.
- 100 Prime Minister 20 July 1920–16 November 1920.
- 101 Athelstan-Johnson to Curzon, 16 June 1921, FO 371/6140/C12707/12707/21.
- 102 The members of the mission were: G. H. Stuart Bunning, William Harris, F. W. Jowett, Josiah C. Wedgwood, and J. B. Williams.
- 103 'The White Terror in Hungary.' Report of the British Joint Labour delegation to Hungary, May 1920, FO 371/4854/C2480/5/21.
- 104 FO 371/4854/C2480/5/21.
- 105 Lindley to Curzon, 25 March 1920, *DBFP*, I/XII, doc. 132, p. 163.
- 106 Lindley to Curzon, 21 March 1921, *DBFP*, I/XII, doc. 131, pp. 162–63.
- 107 FO 371/4854/C2459/5/21.
- 108 Cadogan's minute, 27 July 1920, FO 371/4854/C2730/5/21, underlining in the original.
- 109 FO 371/4854/C2730/5/21.
- 110 Curzon to Athelstan-Johnson (acting High Commissioner in Budapest), 21 May 1920, *DBFP*, I/XII, doc. 175, p. 205.
- 111 Athelstan-Johnson to Curzon, 2 August 1920, *DBFP*, I/XII, doc. 205, pp. 245–46.
- 112 Curzon to Athelstan-Johnson, 13 August 1920, *DBFP*, I/XII, doc. 213, p. 252. A large number of socialist functionaries were tried in Hungary in the so-called trial of the commissaries, and many were exchanged for Russian-held prisoners of war. Renewed enquiries were made from time to time about British responsibility, with special reference to the commitments exacted by Sir Thomas Cuningham and Sir George Clerk from the Hungarians in 1919. The trial of Colonel Aurél Stromfeld, the non-socialist former commander of the Hungarian Red Army, and of others were mentioned in dispatches. (FO 371/4854/C2459, 2516, 2579, 2730/5/21)
- 113 Oscar Jászi, *Revolution and Counter-Revolution in Hungary*, (London, 1924).
- 114 Annual Report on Hungary for 1921, Hohler to Curzon, 3 March 1922, FO 371/7632/C3299/3299/21.
- 115 American chargé d'affaires in Budapest from December 1921.
- 116 Hohler to Curzon, 3 March 1922, FO 371/7632/C3299/3299/21.
- 117 Couget to Briand, 6 April 1921, *Documents d'archives...*, doc. 231, p. 323.
- 118 Couget to Briand, 7 April 1921, *Documents d'archives...*, doc. 232, p. 324.
- 119 Hohler to Curzon, 3 March 1922, FO 371/7632/C3299/3299/21.
- 120 Keeling (British chargé d'Affaires in Vienna 15 August–14 October 1921) to Curzon, 12 August 1921, *DBFP*, I/XXII, doc. 267, p. 324.

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- 121 Keeling to Curzon, 9 September 1921, *DBFP*, I/XXII, doc. 312, p. 375.
- 122 Daeschner (French Minister in Bucharest) to Briand, 25 October 1921, *Documents d'archives...*, doc. 435, p. 578.
- 123 Hohler to Curzon, 8 September 1921, *DBFP*, I/XXII, doc. 311, p. 370.
- 124 Russell to Curzon, 22 October 1921, *DBFP*, I/XXII, doc. 399, pp. 460–61.
- 125 Demetris Ghika, Mihajlović and Osuský to Briand, 24 October 1921, *Documents d'archives...*, doc. 425, p. 578.
- 126 Berthelot to Briand and French heads of missions in Budapest, London, Rome, and Vienna, 22 October 1921, *Documents d'archives...*, doc. 402, p. 555.
- 127 Daeschner to Briand, 25 October 1921, *Documents d'archives...*, doc. 437, pp. 591–92.
- 128 Briand to heads of French missions in Prague, Belgrade, Bucharest, London, Rome, Vienna, Budapest, Warsaw, Berne, Brussels, and Berlin, 25 October 1921, *Documents d'archives...*, doc. 433, p. 588; Fouchet to Briand, 25 October 1921, *Documents d'archives...*, doc. 434, p. 589.
- 129 Daeschner to Briand, 25 October 1921, *Documents d'archives...*, doc. 435, p. 590. The Romanian Minister of Defence and the Chief of Staff told Victor Pétin, the French military attaché in Bucharest, that '[a]ucune mesure de mobilisation n'a encore été prise,' as the relevant decree had not been signed by King Ferdinand of Romania. In any case, any mobilisation would only be partial. (Pétin to Foch, Foch to Briand, 27 October 1921, *Documents d'archives...*, doc. 449, p. 603.) Romania's reasons for not falling in line with the rest of the Little Entente were manifold, but never enunciated explicitly. Among these were King Ferdinand's solidarity with the ex-king Charles, especially as the latter had promised not to raise the question of Transylvania, the sore memories of the recent Romanian withdrawal from Hungary, and the belief in Bucharest that Briand and the Quai d'Orsay, Romania's most trusted allies, were the principal backers of Charles's action in Hungary.
- 130 Delens to Briand, 27 October 1921, *Documents d'archives...*, doc. 447, p. 601.
- 131 Curzon to Hardinge, 27 October 1921, *DBFP*, I/XXII, doc. 435, p. 491.
- 132 Auguste de Saint-Aulaire (French chargé d'affaires in London) to Briand, 30 October 1921, *Documents d'archives...*, doc. 481, p. 644.
- 133 Ádám, *A kisantant...*, p. 139.
- 134 Curzon to Hohler, 24 October 1921, *DBFP*, I/XXII, doc. 425, p. 483n.
- 135 Anne Orde, *British Policy and European Reconstruction After the First World War* (Cambridge: Cambridge University Press, 1990), pp. 140–41. For the details, see section (II) 4.3.
- 136 Fouchet to Briand, 31 October 1921, *Documents d'archives...*, doc. 486, p. 653; Clerk to Curzon, 31 October 1921, *DBFP*, I/XXII, doc. 479, pp. 525–33.
- 137 Clerk to Curzon, 11 November 1921, *DBFP*, I/XXII, doc. 517, p. 568.
- 138 Curzon to Clerk, 10 November 1921, *DBFP*, I/XXII, doc. 516, p. 568.
- 139 Clerk to Curzon, 11 November 1921, *DBFP*, I/XXII, doc. 517, p. 569.

- 140 Clerk to Curzon, 31 October 1921, Cadogan's minute, 4 November, *DBFP*, I/XXII, doc. 479, p. 533.
- 141 In 1922, for instance, Hohler wrote: 'Exuberant and mercurial without being quick-witted, the average Hungarian is impatient of Teuton stolidity, but – perhaps as a contrast to himself – he is impressed with the solid self-confidence and practical sense of the Anglo-Saxon; although usually lacking humour he appreciates it in others, being impervious to the subtler shades of Latin raillery.' (Hohler to Curzon, 13 April 1923, FO 371/8872/C6810/6810/21)
- 142 Hohler to Curzon, 13 April 1923, FO 371/8872/C6810/6810/21.
- 143 The exception was the brief inquiry into constitutional changes in Hungary initiated by the Labour politician, Arthur Ponsonby. For details, see section (I) 1.6.
- 144 For further details, see section (II) 3.5.
- 145 The only dissenting voice was that of Štefan Osuský, the Czechoslovak delegate, who delivered a long list of reasons why, in his view, the Hungarians had not fulfilled the terms of the peace treaty. These mainly concerned the alleged existence of hidden arms caches in Hungary and the obligation of Hungary, in accordance with the treaty, to maintain a 'Single State Factory' for the production of arms and munitions. In Hohler's assessment, however, the Hungarians complied with these requirements. (Hohler to Curzon, 13 April 1923, FO 371/8872/C6810/6810/21.) Continued representations were made, however, to the Conference of Ambassadors about Hungarian non-compliance, see e.g.: *DBFP*, I/XXVI, docs. 148, 176, 182, 184, 230, 237, 242, 251. In the last of these (Nicolson [for MacDonald] to Crewe, 31 October 1924), Paris was informed of British compromise proposals, 'to envisage the early withdrawal of the Military Commission of Control' from Hungary.
- 146 Balfour, Second Secretary in Budapest, to MacDonald, 23 May 1924, FO 371/-9914/C8423/8423/21.
- 147 Barclay to Chamberlain, 25 March 1925, FO 371/10778/C4508/4508/21.
- 148 Aveling's minute, 18 July 1924, FO 371/9914/C8423/8423/21. Similar comments by Aveling, 24 April 1925, FO 371/10778/C4508/4508/21. Francis Aveling was Third Secretary at the British Legation at Prague from December 1920 (acting chargé d'affaires February–March 1921) until his transfer to the Foreign Office in October 1922.
- 149 Hohler to Curzon, 21 November 1922, FO 371/7626/C16156/379/21.
- 150 Cadogan's and Lampson's minutes, 29 November 1922.
- 151 Ponsonby's memorandum, 16 February 1924, FO 371/9902/C2786/21/21, also printed in Lojkó, *British Policy on Hungary 1918–1919*, doc. 236, p. 367.
- 152 Reference to the Hungarian Law XXV of 1920, the so-called 'Numerus Clausus' act, which required that the ratios of racial groups among the university population be proportionate to their general ratio in the population in Hungary. The effect of the law was to restrict the number of students of Jewish origin at universities. Similar acts were passed later in Poland and Romania. The Hungarian

Jews submitted a petition against the law to the Council of the League of Nations, where their case was represented by Lucien Wolf, the Secretary of the Joint Foreign Committee of the (British) Jewish Board of Deputies, the Anglo-Jewish Association and the Alliance Israélite Universelle. The Foreign Office frequently commented on the proceedings of the Council in this matter. In 1925, overruling the opinion of Sir Cecil Hurst, the Legal Adviser to the Foreign Office, and of Cadogan, head of the League of Nations Section of the Foreign Office, Miles Lampson recommended that the question be referred to the recently established Permanent Court of International Justice at The Hague. Although the law could not be repealed through international legal action, the referral was one of only a handful of minorities cases reaching the Permanent Court in the interwar years. (Mark Levene, *War, Jews, and the New Europe, The Diplomacy of Lucien Wolf, 1914–1919*, [Oxford: Oxford University Press, Oxford, 1992]; Nathaniel Katzburg, *Hungary and the Jews, Policy and Legislation 1920–1943* [Bar-Ilan University Press, 1981]; “Jewish Minorities in Hungary”, League of Nations, 20 May 1925, FO 371/10778C7931/6739/21; Central Department memorandum, May 1925, FO 371/10778/C6739/6739/21; Central Department memorandum, 20 October 1925, FO 371/10778/C12735/6739/21; Central Department memorandum, 15 November 1925, FO 371/10778/C15195/6739/21.)

153 Memorandum by Ponsonby, 16 February 1924, FO 371/9902/C2786/21/21.

154 Central Department memorandum, 22 February 1924, FO 371/9902/C3619/21/-21, also printed in Lojkó, *British Policy on Hungary 1918–1919*, doc, 236, p. 369.

155 *Loc. cit.*

156 *Loc. cit.*

157 Hohler to MacDonald, 12 March 1924, FO 371/9902/C4501/21/21.

158 Hohler to MacDonald, 26 March 1924, FO 371/9902/C5341/21/21, also printed in Lojkó, *British Policy on Hungary 1918–1919*, doc, 236, p. 371.

159 Nicolson’s minute, 2 April 1924.

160 Hohler, who had served for a time in Mexico before his transfer to Hungary, left Budapest to return to Mexico on 15 October 1924.

161 Barclay to Chamberlain, 3 April 1925, FO 371/10778/C4851/4851/21.

162 *Loc. cit.*

163 Barclay to Chamberlain, 25 April 1925, Howard Smith’s minute, 6 May 1925, FO 371/10778/C5994/4851/21.

164 Sterndale Bennett’s minute, 8 May 1925.

165 Lampson’s minute, 7 May 1925.

166 ‘Record of a Discussion between Sir A. Chamberlain, Mr. Lampson and Count Bethlen’, 8 December 1925, FO 371/10775/C15915/261/21; *DBFP*, Ia/I, doc. 137, pp. 223–230.

167 The quoted sentence was underlined by a Foreign Office clerk in FO 371/10775/-C15915/261/21.

168 Aveling’s minute, 15 December 1925.

CHAPTER 2

The British Role in the Financial Reconstruction of Hungary after the First World War

2.1 BRITISH CENTRAL BANKING IN THE SERVICE OF RECOVERY

When, in early 1923, the Bank of England began to show active interest in the reconstruction of Hungarian finances, they were on virtually virgin territory. The question arises: What made the governor and directors of Threadneedle Street seek such an untrodden path?

The strong character and conviction-driven financial politics of Montagu Norman were decisive in the history of post-war European reconstruction. Norman was elected Governor of the Bank of England in 1920, at the age of 49, and was to hold this post for an unprecedented twenty-four years. His elusive personality which left an indelible imprint on the history of British finance has been studied extensively, but my question is left unanswered by these works.¹ Most accounts emphasise the keenness with which Norman tried to avoid involvement in political as opposed to purely financial and economic matters. Sir Henry Clay points out that not a single member of Norman's family, who had occupied responsible positions in commerce and industry in England since the 17th century, had political jobs or ambitions.² Norman also created the impression that while he never lost sight of British interests, he was a true internationalist. At closer examination, a more organic relationship may be discovered between Norman's policy on money at home and abroad. Both Andrew Boyle, Norman's 'unofficial' biographer, and György Péteri point to the fact that Norman lived in a quasi-late-Victorian world of his own, intent on recapturing a past when London was the financial centre of the world. In his uphill struggle towards this goal, active participation in European reconstruction proved a useful tool.³

In April 1920, in a successful bid to rein in wartime and immediate post-war credit, in opposition to the then chancellor of the Exchequer, Austen Chamberlain, Norman raised the Bank of England's lending rate

to 7 per cent, which thus increased by 3 per cent within a short period.⁴ The short-lived post-war boom ended, and the financiers' eyes turned outwards. They understood that an essential pre-condition of British recovery was the re-establishment of the City of London's position as the primary money-lender to other countries, including the now war-ravaged ex-enemies.

The recognition of the deleterious effects to Britain of the disruption suffered by European trade was not confined to the Bank of England and the City. Britain entered the war in 1914 as a country whose prosperity depended on free trade. No-one at the end of the war suggested that this should be changed. By September 1919, the main import restrictions had been removed, and limitations on trade with enemy countries relaxed.⁵ The report of the committee appointed to investigate the future of inter-imperial relations, chaired by Lord Balfour, summed up the steps taken in support of trade with Central Europe.⁶

Such measures, however, could not be effective while, in addition to the scarcity of trade credits and traditional trading links, the financial situation in Central Europe remained an impediment to commerce. Also, Norman's wish for an early return to the gold standard, which he regarded as an automatic stabiliser, was frustrated; the task now appeared to be a long-term one. Legislation was enacted prohibiting the export of gold held by the Bank of England until 1925. Norman had time to turn his attention to the anarchic state of Central European finances.

In order to understand his key role in the financial stabilisation of Hungary in particular, and Central Europe in general, we need to look at the governor's general views on the 'art of Central banking' and the position of sterling in the world. The financial policies advocated by Norman were a peculiar combination of insistence on the return to a vanished pre-war ideal and the invention and application of new methods and institutional forms.⁷ He identified three tendencies in the post-war world whose elimination he regarded as indispensable conditions of world prosperity. These were 1. the 'irrationalities' of politics, especially if these were associated with the emotional whims of nationalism, as opposed to the 'rationality' of economic necessity; 2. the degradation of European finances by the rigid insistence on exorbitant reparations payments and inter-Allied debts; and 3. the loss of leverage suffered by Lon-

don as the financial centre of the world to the benefit of New York, and worse still, in the last third of the '20s, to the benefit of Paris, which Norman regarded as an obstructive source of self-centred economic and financial nationalism. In order to rectify these evils, the governor adopted a stance which is best described as 'anti-politics.' His own recent experience, the outbreak and prosecution of the war, the record of the Peace Conference, the wave of revolutionary outbreaks sweeping across Europe, the squabbles erupting among and within the smaller and greater Allies, to him all appeared to be an indictment of politicians and the 'political' approach to organising the welfare of nations. His pre-war experience, the free movement of capital and labour and the gold standard had been swept away by politics and war.⁸

Before the war, the gold standard first and foremost benefited the industrialised countries, and especially London as the centre of British imperial trade. Countries on the periphery bore the costs of a system in which the equilibrium was assisted by the ability of the central banks, mainly the Bank of England, to accumulate sufficient reserves by increasing transfers from public circulation into centralised banking institutions, to guarantee convertibility. At the other end, developing nations had little control over the cyclical pattern of the rate of capital imports determined by the needs of states which were overall creditors. International payments were cleared in sterling. Whatever the gold reserve of the Bank of England was (sometimes as astonishingly low as a 2–3 per cent cover of the bank note supply), confidence in sterling was never called into question. The strength of the gold-based monetary régime was that it revolved around one single financial centre: London.⁹ With the liquidation of sterling assets during the war, confidence in sterling was fatally shaken. When the few who understood the fundamental differences between pre-war and post-war trade warned that return to gold would not be a panacea, their arguments were rebutted by allusions to the psychological qualities of a gold-based settlement. As even before the war a large part of the success of the system depended on trust rather than the actual existence of reserves, the pro-gold argument underlined the importance of collaborating partners.

For Norman, the secret of reorganising sound finance outside the political realm lay in his pragmatic theory of central banking, the organ-

isation of financial relations in the post-war world through a network of 'autonomous central banks, dominating their own financial markets and deriving their power from common agreement among themselves.'¹⁰

The definition of the functions of such central banks as a co-operative association for international financial decision-making was, however, not readily available. In a treatise intended to offer an interpretation, Ralph G. Hawtrey, director of the Treasury's Financial Enquiries Division,¹¹ argued that while the real source of inflation was the creation of credits in favour of the governments by central banks, a 'central bank was free to follow the precept: 'never explain; never regret; never apologise; [...] It is remarkable in a democratic age [...]' Hawtrey wrote that 'this exemption from criticism [...] of the great central banks of the world [...] should be viewed as an advantage.'¹²

Norman summed up his own tenets in what he called an 'epitome', which was rooted in the British central banking experience.¹³ Norman's advocacy of inter-bank co-operation, combined with his strict insistence on his depoliticised model resulted in strained relations with the Bank of France. The French regarded Norman's doctrine not as a set of universal principles, but as the vehicle for the furtherance of British financial and commercial aims. As soon as 1920, a rift opened up between a British vision for the financial reconstruction of Europe and French ambitions to prevent its realisation.¹⁴

Even if one accepted Norman's desire for depoliticisation as genuine, it is undeniable that his use of the international channels gave enormous influence to members of the British financial establishment, operating at home and abroad, with whom Norman had excellent personal or working relations. Many, like Ralph G. Hawtrey, were not only captivated by his indefatigable energy for work, but also actively shared his ideals. In January 1920, Hawtrey wrote in a memorandum to be circulated at the Treasury:

The natural currency to choose is the U.S. dollar, which is at its gold par. But it is to our interest to induce European countries to choose sterling. We do not want to smooth the way for New York to become the financial centre of the World. If sterling could be at its par by the time the European currencies are settled, this would

be almost a matter of course. A paper pound, subject to unforeseeable vagaries, may not prove acceptable, though up to the present London has held its position most remarkably.

Hawtrey also indicated that one of the methods of achieving confidence in the pound was the regeneration of European trade, even if it means the subsidisation of that trade for a while in spite of the general post-war injunction against government sponsored foreign loans. He tersely asserted that: 'The United States can do without Europe; we cannot.'¹⁵

Norman's intimate collaboration with the Treasury at a time when the Treasury's influence over other Whitehall departments, including the Foreign Office, was at an unprecedentedly high level also lent a political dimension to his operations. The Treasury's automatic hold over political decisions during the war-economy had not come to an end after the Armistice. In the aftermath of the war, according to J. A. Hemery, 'Treasury officials came to the fore in three main areas of diplomacy. The first was the negotiation of the financial terms of peace,' involving essentially political issues. The second main area was 'the organisation of emergency relief and resupply of food and raw materials in Europe. [...] The third area was [...] the diplomacy of reparations.'¹⁶ In all these areas, the Treasury was faced with opposition by both its own government and the governments of the other Allied and Associated countries, and therefore can be said to have made and pursued a virtually independent line of policy.

The concomitant benefit to the British economy resulting from the British-led reconstruction schemes was that the stabilisation and revaluation of some foreign currencies were carried out on the basis of the pound sterling as reserve currency. At a time when the dollar was the only currency whose gold purchasing value was fixed, i.e. the only currency on parity with gold, a decision by any foreign government or central banker to accept the pound as the basis of a new currency qualified as a vote of confidence in the pound as an international exchange currency, and a vote of confidence in the pound's early return to gold. By such a decision, the foreign central banks accepted the risk of losses to their national budgets which would accrue from the fluctuations of the pound compared to the dollar. Such losses would have to be compensat-

ed by the taxpayers of these countries, thereby subsidising the recovery of the pound. This was understood by the economic leadership of the target countries, but given their acceptance of the League scheme in which the Bank of England was the driving engine, there was little they could do about it. It was a curious dichotomy in Norman's working psychology that while he maintained personal and professional relations with the Federal Reserve Bank of New York and its Governor, Benjamin Strong, he was also outspoken in his desire to wrench back the pre-war British role in international finance, and thus deprive the Americans of the enormous benefits deriving from possessing the reserve currency of the world. In 1926, in the midst of the General Strike in Britain, Norman wrote:

England is part of Europe: Europe quarrelled: Europe has thus reached poverty and so far has kept dis-union alive within her: America is detached and has thus become rich: so Europe is the 'promised land' to America: to be possessed without even competition!¹⁷

2.2 MONTAGU NORMAN AND THE MONETARY RECONSTRUCTION OF CENTRAL EUROPE

At a meeting in Amsterdam in the autumn of 1921 with Dr. Gerard Vissering, the president of *De Nederlandsche Bank* and Pierre Jay, an emissary of the Federal Reserve Bank of New York,¹⁸ Norman expounded his radical aspiration to create a 'consortium of Central Banks [...] for the rehabilitation of Austria and Eastern Europe on purely economic lines.'¹⁹ To Victor Moll, the president of the Swedish Riksbank, he later wrote: 'it is [...] the duty of Central Banks to join now together and maintain as far as possible the economic position of Central Europe [...]'²⁰ Four countries in Central Europe were conspicuous by their financial and economic failures. In 1926, R. G. Hawtrey argued that

By the end of 1922 the currencies of Eastern and Central Europe were sorting themselves out into two groups. Germany, Hungary, and Poland were clearly following in the footsteps of Austria, and

were faced with the prospect of utter demoralisation. Roumania, Jugo-Slavia, Greece, Bulgaria and Estonia, though still exposed to serious fluctuations, were no longer experiencing progressive depreciation.²¹

In early 1920, Hawtrey pioneered the fundamental precepts for stabilising debased currencies. He argued that if the given government is solvent, 'the stabilisation of a depreciated currency at its *existing* value can be effected through the instrumentality of an exchange standard with very little backing. [...] But to take advantage of the exchange standard there must be a trustworthy foreign currency to base it on.'²²

Austria was a test case. A former empire was reduced into a mini-republic of six million inhabitants, where 'the krone tumbled to nothing, the value of mortgages and loans catastrophically fell. [...] The sustenance of pullulating small *rentiers* was disappearing. In terms of money, property had been annihilated. [...] The population [was] debased into paupers or speculators.'²³ Norman and his colleagues at the Treasury, in the Financial Committee of the League of Nations, at the Reparation Commission, in the City of London and at other banking houses considered that only if Austria could be made to work, would there be hope for the rest of Central Europe.

Before any other consideration, whether concerning reparations or eventual reconstruction, the Austrians had to be fed. The decision to distribute relief supplies in Austria was taken by Lord Reading, Lord Chief Justice of England, in January 1919, with 'the financial arrangements to be made retrospectively.'²⁴ A dollar credit was requested by Sir John Bradbury,²⁵ the British government's chief financial adviser, via Sir Basil Blackett,²⁶ the Treasury's representative in Washington.²⁷ Eventually 'Austrian relief was paid for by an American loan of \$48 million in equal parts to Great Britain, France and Italy for the payment of American foodstuffs supplied to Austria.'²⁸ Sir William Beveridge, the British member of the Inter-Allied Food Mission visiting Vienna, Budapest and Prague in January 1919, recommended '[An] "Economic Confederation of the Danube." [...] for German Austria a movement away from Germany,'²⁹ which Robert Cecil considered 'wild and injudicious,' while, without any effect, Esmé Howard³⁰ endorsed the proposal.³¹

As relief could be exploited by concession hunters, by some it was seen as a disguised means of Western penetration.³² The question of imposing reparation obligations on Austria³³ was indeed dealt with in parallel but uncoordinated fashion with the issue of relief,³⁴ until Sir William Goode³⁵ reorganised them as integrated but separate issues. In March 1921, the politicians and financial experts in Paris and Geneva accepted Goode's advice to postpone the claims for Austrian reparation and Goode dissolved the Austrian Section of the Reparation Commission. The Austrian government invited him to stay on as financial adviser. The Financial Committee of the League of Nations drew up a scheme for Austria's reconstruction in October 1922 based on Goode's original recommendations.

'[B]ringing order into the Austrian House' was the first major undertaking of the Financial Committee of the League of Nations. It was clear at the early stages of negotiations conducted by Sir Arthur Salter (from 1922, Sir Arthur),³⁶ head of the Financial Committee and Blackett, a British member of that committee, that without Norman's participation, the cause of Austrian reconstruction had no chance to succeed. '[T]here was no other man who could so effectively take the lead in the difficult loan negotiations which were essential to success.'³⁷ The initial idea was that under the aegis of the Financial Committee of the League, members of the Entente powers as governments would direct this scheme from Paris, while Geneva would remain in the background. Norman was fundamentally opposed to such a plan. Writing to Benjamin Strong, the governor of the Federal Reserve Bank of New York, he asserted: 'Even a sound economic plan for Austria if financed and controlled by the Entente would inevitably be more political in the long run than economic.' He urged the mobilisation of the neutral countries for the plan.³⁸ Norman was, however, ready to involve the League of Nations in European stabilisation projects. 'If and when the time comes,' Norman wrote to Strong, 'the League of Nations Scheme will have to be dressed up in somewhat different garments to make it non-political [...]'³⁹

The mechanism was found as a result of a Czechoslovak application. In January 1922, the government of Czechoslovakia initiated negotiations for a contract on an international loan to be issued in London, Amsterdam and New York. Baring Brothers of London had no objection

to the security offered (the income from customs duties), but, in view of the political instability prevailing in Eastern and Central Europe, they demanded that their representatives be allowed to operate from Prague to control the administration of the incomes mortgaged in order to secure the interests of the creditors. The Prague government found this proposal humiliating. A way was found by the Czech delegate, who proposed that the League of Nations should be charged with arbitration in case of any difference between the Czech government and the lenders about security, and that the League should be requested in case of difficulty to take any action necessary to secure the interest of the bond holders. This was accepted by the bankers on the one hand, and the Council of the League on the other hand.⁴⁰

The Czechoslovak arrangement opened the way for the reconstruction of Central and Eastern Europe without compelling the new and impoverished states to submit to a control by foreign governments or foreign financial groups. It was this loan-diplomacy know-how which was later developed further by the Financial Committee (Economic and Financial Section) of the League when they received instructions to tackle Austrian and Hungarian stabilisation. Norman's explanation for his strong partisanship of a League solution rested on the argument that this approach would garner more numerous and potent creditors as the stabilisation programme would be drawn up by impartial experts, and the necessary control would also be exercised by neutral administrators. Yet, because of Norman's close co-operation with presidents Rudolf Havenstein and Hjalmar Schacht of the German Reichsbank while advocating inter-bank relations between the Bank of England and the Reichsbank in the process of the stabilisation of the German mark and after, in the eyes of many, including French, Czechoslovak and Polish politicians and economic leaders, his argument concerning League neutrality remained unconvincing.⁴¹

It was not until early 1921 that Norman could persuade the financial world to recognise that the Austrian collapse threatened the whole of Central Europe. In March 1921, Britain, France, Italy and Japan agreed to release the assets mortgaged to their benefit in Austria for reparation and relief loans in favour of a reconstruction loan. They also asked other creditor countries to do the same, and formally asked the League of

Nations to draw up a reconstruction scheme for Austria. The presence of Sir Henry Strakosch,⁴² Sir Otto Niemeyer⁴³ and Salter in the Financial Committee of the League and the Reparation Commission ensured safe passage for the recommendations.⁴⁴ The Financial Committee accepted the proposal, and G. M. Young, the new director of the Anglo-Austrian Bank was sent to Vienna to oversee the spending of the loan.⁴⁵

Norman set out to find a controller for the scheme, preferably from a neutral country, who would supervise Austrian finance, taxation, and note issues. At the same time, he began to sound out bankers in Britain and abroad for placing the loan. To save the value of mortgageable Austrian assets, the governments of Britain, France, Czechoslovakia and Italy agreed to postpone their claims towards Austria for twenty years. In April 1922, the United States followed suit. In September 1922, Ignaz Seipel the Austrian Chancellor agreed to the system of control,⁴⁶ the groundwork for which had been carried out by Sir William Goode. According to the Protocols, signed in October 1922, Austria was required to maintain its independence; a rigorous reconstruction regime was imposed on it, including the appointment of a League Commissioner-General. Norman, Strakosch and Niemeyer set out to place the loan, exerting their influence on their Dutch, Swiss, Swedish and American friends, including Thomas Lamont, a partner in J. P. Morgans, through whom the American tranche was placed. The London issue of £9 million was completed in June 1923.⁴⁷

Under the supervision of the Dutch banker, Alfred Zimmermann,⁴⁸ Austria's foreign exchange reserves trebled at the end of the first year, and in early 1926 the control of the budget was withdrawn and the Commissioner-General's office terminated. Writing to Strong, H. A. Trotter, Deputy Governor of the Bank of England, judged that '[w]ithout Norman behind them the Austrians would not have achieved much.'⁴⁹ Norman, in turn, relied on the rest of his 'team,' especially Niemeyer and Strakosch, whose constant pressure and quizzical control on the new Austrian central bank, the lending institutions and neutral experts kept the project going. Evidence of this co-operation led J. A. Hemery to argue that '[Austria was] a state which the British Government ultimately were to revive almost singlehandedly [...]'⁵⁰ It is important to point out, how-

ever, that though the loan was quoted in sterling, the revalorised Austrian currency was stabilised in relation to the U.S. dollar, which ultimately saved it from losses due to the vagaries of exchange rates.

2.3 NORMAN'S TRIUMPH: HUNGARY

2.3.1 *The Hungarian Side*

Even before the completion of the Austrian project, Norman had been pondering further, even more ambitious, operations in Central and South-Eastern Europe. He revealed to Strong a whole new vision for regional redevelopment:

If we can thus set up Austria, we must tackle Hungary so as to establish one by one the *new* parts of *old* Austria [...] and then perhaps the Balkan countries. Only by thus making the various parts economically sound and independent shall we reach what I believe to be the ultimate solution for Eastern Europe, viz. an economic federation to include half a dozen countries in or near the Danube free of Customs Barriers etc.⁵¹

It became widely accepted that the loan placement and control know-how developed with Czechoslovakia and the reparation-release mechanism worked out in the course of the Austrian loan could be utilised in the case of Hungary. However, the differences between Austria and Hungary were considerable. The new Austria was essentially an industrial country with a refined banking system. About three quarters of its population derived their living from finance, trade and industry, and only the rest from agriculture. Food and raw materials were imported. Hungary's economy worked the other way round. The effects of the loss of the purchasing power of the Austrian currency were rapid and disastrous. In September 1922, when the fall of the Austrian *krone* was arrested, the Hungarian *korona* was still 32 times the purchasing value of the *krone*.⁵² At the same time, because of the lack of large industrial enterprises,

there was little overall confidence abroad in Hungary's speedy recovery, and there was the danger that the liens due to the Little Entente countries and France could not be suspended, not at any rate without major political interference. Hungary's nationalist right-wing parties were also threatening to disrupt the precarious internal balance of Hungary should foreign control be imposed.

In Hungary, the transitional period between sheer subsistence made possible by Western relief programmes and the beginnings of consolidation was connected with the tenure of Frigyes Korányi, Finance Minister in successive governments in office between September 1919 and December 1920. During his financial administration, the Hungarian *korona* was overstampeded, the last to be 'nostrified' in this way of the successor currencies issued originally by the old Austro-Hungarian central bank.⁵³

The strong impression was, however, that monetary stabilisation and the restoration of the balance of foreign trade were impossible without the injection of a foreign loan. Such a loan would be used as a temporary stop gap measure to finance the deficit of the budget and that of the balance of payments until a stable money was achieved, to upgrade industry and agriculture, to adjust the infrastructure to the changed circumstances of the Trianon borders, and finally to achieve monetary stability. External help also improved the chance of long-term stability based on firm presence on the world's financial and commodity markets. This programme could not easily be reconciled with a single-minded political programme focusing on the revision of the country's new international borders. But the appointment of Count István Bethlen as Prime Minister in April 1921 cut this Gordian Knot—at least for a considerable period of time. Bethlen was a shrewd and calculating politician, who knew that the much coveted revision could only proceed from a position of relative strength, backed by powerful patrons in the West, rather than from the sabre rattling pronouncements of a defeated and prostrate country. Under Bethlen's régime, the voice of the populist right was suppressed, and a class of highly qualified economic experts were allowed to operate.

Goode, from the outset, looked across the border from Austria to see how solving the problems of Austria could be combined with Hungarian reconstruction. He proposed to the Hungarian government that they should invite the Reparation Commission to Hungary.⁵⁴ The Hungarians

spurned the idea claiming that the Reparation Commission in Austria was not doing any useful work, it cost a good deal of money, and its members were British placemen. Lampson's minute on the report: 'Goode is now in some respects Dictator of Austria,' shows the suspicion and ignorance with which Goode's work was regarded even by senior British diplomats. The head of the Central Department may also have been uneasy about the increasing political prestige of functionaries charged with economic tasks. Athelstan-Johnson in Budapest was unconvinced by Goode's work in Austria, and did not recommend the extension of his novel practices to Hungary, declaring that the Austrian Section of the Reparation Commission had taken on functions which the treaty of St Germain never contemplated.⁵⁵ 'These functions,' the acting high commissioner wrote, 'are those of a reconstructing and uncontrolled body,' deriving authority not from the Reparation Commission, but from the 'note on advance to Austria,' in which 'the reparations side of the Commission seems to have practically disappeared.' Athelstan-Johnson explained that by contrast 'Hungary is different, it can live on its own food, and once the coal mines of Pécs are returned [i.e. the Serb forces withdraw from that region], food processing can start [...]' Nonetheless, Athelstan-Johnson recommended that controlled credit should be given to Hungary. Answering the dispatch, Crowe declared that a reparation commission would have to be constituted for Hungary, which would not act the way the Austrian section had done.⁵⁶

In spite of the adverse initial reaction to Goode's offer of assistance, at about the same time, the Hungarians began to turn to Britain for help. The first attempt to gauge the possibilities of a British loan (amounting to £10 million) had been made by Simon Krausz, one of Hungary's most successful bankers, who travelled to London for this purpose in the early autumn of 1920. The security for the loan would have been a primary lien on the property and earnings of the state railways and Hungarian customs revenues. Athelstan-Johnson told Krausz, after the latter had returned from London, that he 'did not think any such loan would be allowed by His Majesty's Government until after the ratification of the Peace Treaty, nor without the approval of the Reparation Commission.' The Foreign Office found this restrained attitude 'praiseworthy.'⁵⁷ A few months later, Gyula Walder, a successful Hungarian banker, published

the outlines of an ambitious scheme in *The Financial Times*, which he later discussed with Thomas Hohler, the British High Commissioner in Budapest.⁵⁸ In his plan, Walder stressed that the disrupted economic equilibrium of the Danube basin could only be restored by the full political, economic and financial commitment of the Entente powers to this goal. Walder would repeatedly seek interviews in 1921 and 1922 with Thomas Hohler on the subject of a possible loan. Apart from the good economic sense behind such attempts, the Hungarians were beginning to look for a Great Power patron for Hungary's more comprehensive objectives, i.e. border revision. Apart from Britain, France and Italy were also mooted for this function. Various factions inside and outside the Hungarian government favoured different candidates. Perhaps this was the rationale which ultimately removed the violent objections of the far-right wing from pursuing a foreign-controlled loan. Arguably, however, the prospect of revision did not play a part with the leading Hungarian framers of the international loan negotiations, Tibor Kállay, the Finance Minister, and the would-be president of the central bank, Sándor Popovics. The British financial establishment, most notably the 'apolitical' Norman himself, whatever his opinion of the Treaty of Trianon may have been,⁵⁹ was far from intending to condone Hungary's political ambitions in Central Europe by advocating a loan scheme for Hungary. His strict financial orthodoxy and the emphasis on an independent central bank were wholeheartedly shared by the Hungarian political and financial leaders and proved a solid basis for good relations. At the same time, Norman's disdainful attitude towards the peace treaties' unsound and punitive financial clauses may have planted the impression in some Hungarians that they were dealing with a political ally.

The first financial expert appointed by Bethlen to carry out monetary and fiscal reform, was Lóránt Hegedűs, Minister of Finance between December 1920 and September 1921.⁶⁰ Immediately upon being appointed minister, he launched a vigorous popular campaign for stabilisation. In the long run, he hoped to nurture a strong national currency based on the gold standard, which would be traded at the world's stock exchanges. In order to achieve this, he planned to found an independent central bank, backed by a credible gold reserve. Hegedűs was also a bitter critic of the financial clauses of the Treaty of Trianon. In his pamphlet, entitled *Will*

There Be Peace?, largely written while in attendance at Neuilly as a member of the Hungarian peace delegation, he quoted J. M. Keynes's recent book, *The Economic Consequences of the Peace*, arguing that punitive reparations payments did not augur well for restarting the blood circulation of the sick post-war body of Europe.⁶¹

Hegedűs hoped to base the new Hungarian currency on the French franc. Late 1919 and 1920 was a time of hope in Franco-Hungarian relations. Both Paléologue, Secretary-General of the Quai d'Orsay, and Millerand, French Prime Minister and Foreign Secretary, entertained visions of creating a loose confederation from the successor states of Austria-Hungary under French tutelage.⁶² Hungary, the linchpin of the French scheme, would have joined the franc zone, its currency would have been called the Hungarian franc, its value set as 5 per cent of that of the Swiss franc.⁶³ Hegedűs's grandiose scheme, however, never got off the ground, partly due to British opposition, and partly because neither the Hungarian nor the French financial and commercial circumstances were fit for such an undertaking.⁶⁴

Nonetheless, preparations for a financial salvaging operation involving foreign capital went ahead under Hegedűs. On 1 August 1921, largely thanks to his efforts, the Royal Hungarian State Note Institute (*Magyar Királyi Állami Jegyintézet*) began to function under the presidency of Sándor Popovics,⁶⁵ who was appointed by the Regent. With its establishment, Hungary fulfilled all the monetary clauses of the peace treaty, and severed its links with the old issuing bank of the Austro-Hungarian Monarchy, the Austro-Hungarian Bank. While it did not fulfil the classic functions of an issuing bank—Act XIV of 1921 reserved the state's exclusive right to issue banknotes, i.e. 'state-notes'—the note institute was created as a temporary institution, and operated as a quasi-central bank, until a Hungarian national bank was created.⁶⁶ Despite Hegedűs's and Popovics's best efforts, the deflationary process came to a halt in May–June 1921, and from then on the price level began to rise to reach catastrophic proportions by the summer of 1922, when an inflation rate of 90 per cent per month was registered. Towards the end of Hegedűs's ministry, a loan was no longer required for far-reaching purposes, but for sheer survival.⁶⁷ By the middle of September 1921, he drew the consequences of his failure, and resigned. The new Minister of Finance, Tibor

Kállay, took up his position in December 1921.⁶⁸ In the early part of his ministry, Kállay still calculated in terms of stabilisation based on the Swiss franc. By mid-1922, he had decided to explore British channels.

Kállay had to grapple with more than just the monetary problem. The depreciation of the Hungarian currency was due to a whole catalogue of impediments to money transfers and trade resulting in the current and cumulative deficit in Hungary's balance of payments. Hungary became a country dependent on foreign trade at a time when it had nothing to sell. This predicament was compounded by debts incurred before, during and after the war, not to speak of the impending reparations obligations. In February 1916, a partly private-owned, so-called *Devisenzentrale* (*Devizaközpont*) was established to control the flow of, and manage the shortage in, foreign exchange during the war. In 1920, a government decree abolished the institute. However, on 8 August 1922, following the slide into financial chaos during the summer of that year, and the sudden halving of the value of the *korona* in early August, the government decided to re-establish the *Devisenzentrale*. This time, it was put under the supervision of the state, i.e. the Note Institute; its purpose was to arrest the further depreciation of the currency. The centre proved unequal to this task as a short-term objective. In the Annual Report for 1923, David J. Cowan, Third Secretary at the British Legation in Budapest, even remarked that

[The establishment of the *Devisenzentrale*] and the import permit system, designed for the same object, created an almost insurmountable barrier in the path of normal trade relations, and contributed in no small measure to the economic collapse of a country which, if not intrinsically wealthy, is at any rate economically self-supporting.⁶⁹

On 23 September 1922, the Allied Reparation Commission delivered a protest to Hungary against the issuing of uncovered state-notes. The exchange rate of the *korona* had been in free-fall, and there was genuine fear that the Austrian example would be repeated, where 1 gold kronen was worth 17,000 paper *kronen* in the same period.⁷⁰ The essence of the

problem was that, as Kállay admitted to John Balfour, British chargé d'affaires in Budapest, 'the credit of the country was at an end.'⁷¹ The British financial orientation had to be examined seriously.

2.3.2 Essential Reconnaissance

In early 1922, a meticulous memorandum, titled 'The Economic Reconstruction of Europe from an English Point of View' by the Hungarian chargé d'affaires in London, István Hedry, shed light for the Hungarian government on the ambivalent relationship between Britain's sharply worsening economic and commercial situation, and its ambition to improve financial conditions in Europe. Hedry reported that 'England [was] going through an economic crisis of the gravest kind. The foreign commerce of England has literally stalled.' The chargé d'affaires explained that because of high production costs, British industry was unable to compete with those continental countries whose currencies were at a discount on the money markets. The '20-year Vorsprung' gained during the Napoleonic wars vis-à-vis the industries of the Continent, already under erosion before the war, had been lost entirely. The solution, Hedry related, lay in the 'restoration of London as the pivot of the world's finances.' Relying on the continuing prestige of the City and their still vigorous banking system, the British were endeavouring 'to draw into their sphere those enormous moral and material forces which are contained in the European Continent.' Hedry wrote that Lloyd George identified the 'economic reconstruction of Europe as the most important and dominating element in his entire political programme,' and his successors were likely to follow suit. 'Chaotic conditions in the east' were particularly recognised as exerting a 'negative impact on British trade.' Permanent failure, Hedry concluded, had to be avoided by the British, even if it meant a clash with the Americans and the French on world markets, and in conflicting bids to assist in the reconstruction of Europe. This was a 'life and death matter' for the British.⁷²

The basic motivations of British financial policy in Europe, were, therefore, known to the Hungarians when, in the early autumn of 1922, Kállay had an interview with Richard Humphreys, British Commercial

Commissioner for Hungary, where he tried to ascertain the possibilities of a British loan for the following purposes:

1. to pay off or consolidate existing foreign loans, including the City of Budapest;
2. for investments and necessary repairs for the State Railways;
3. to stabilize the currency to 1 centime Zürich;
4. to allow for a Treasury Reserve for extraneous State expenses.⁷³

Hohler, who reported the meeting, also informed Curzon that

Some time ago Mr. Spencer Smith⁷⁴ of the Anglo-Austrian Bank was in Budapest, and mentioned to Mr. Humphreys that he would be glad to be informed should any suggestion of a loan to Hungary be put forward at some later date.

Accordingly, Humphreys informed the British of Kállay's exploratory approach. The negotiations remained, however, dogged by the question of reparations. Hohler's report was docketed with the following remarks: 'It is very doubtful if the Reparations Commission would allow any Hungarian asset to be released for the purpose of a loan.'⁷⁵ On the commercial banking side, a sphere more exposed to the vagaries of individual ambitions and fortune than central banking, the problem of Hungary's pre-war debts created similar obstacles for British banks.⁷⁶

In late 1922, János Teleszky,⁷⁷ a former Minister of Finance, and head of the government's so-called Financial Council, received an official commission to draw up a scheme for 'the stabilisation of the exchange rate of the Hungarian *korona* and the restoration of the balance of the country's budget.'⁷⁸ Teleszky's orthodox views on monetary value were respected both by the bankers and the politicians of Hungary. His report, emphasising the need to achieve 'constancy of the value of money,' which 'would automatically [...] ensure the balance of the budget and that of foreign trade,' reiterated the opinion of financial experts of the Economic Commission meeting at Genoa a few months before.⁷⁹ Teleszky's project did not, however, tackle the central domestic problem in Hungary. Without essential transformations in the structure of the Hungarian econ-

omy, any foreign loan would probably be wasted in the end. His only reference to necessary internal measures was 'that offering the korona abroad and unnecessary imports be further restricted.' As the term of a foreign loan was envisaged to be about five years, Teleszky was worried

whether we shall be able, even without paying reparations, to preserve the rate of exchange of the korona after those five years have passed, i.e. when the proceeds of the foreign loan will not be available for the compensation of the passivity of the balance of payments.⁸⁰

Therefore the success of Teleszky's project was predicated on the presumption that Hungary's exports would increase substantially before Hungary had to redeem any foreign loan. In turn, however, that latter supposition rested on the premise that the disequilibrium in trade was due to the deterioration in the value of the korona. The plan, further refined in a study by Alajos Szabóky, director of the Central Statistical Office of Hungary, suggested that restoration and stabilisation in Hungary could be guaranteed by the development of an export-oriented agriculture and an industry oriented towards the substitution of imports. The main source for financing that development would be capital import.⁸¹

The Hungarian experts, including Hegedűs, also argued that Hungary's economy will only succeed in keeping afloat if it were able to re-establish and maintain, albeit in the changed circumstances of the new world economy, traditional ties of labour and trade with the various parts of the former Austria-Hungary. An aggressive, openly revisionist foreign policy was unthinkable, for such a policy would make fiscal reconstruction impossible. In the end, the contradiction between revisionism and peaceful coexistence became irreconcilable ambitions. The formation of the Little Entente, with the potential to raise an army of 4.5 million men at a time when the Hungarian army did not number more than about 35,000, made it increasingly difficult for Hungary's economic doves to outmanoeuvre the majority hawks. Soon after the creation of the Little Entente, the Hungarian Minister of Defence announced an ambitious secret military programme to counter the Little Entente with an eye on

future revisionist plans. In response, Hegedűs asserted: 'First, armies should be armies and not make either commercial or literary policies. Secondly, I go by the Trianon peace treaty. Consequently, as long as I am here, I will not give a farthing for any swashbuckling.'⁸² French intelligence reports suggested that the military programme, if fully implemented, would have consumed more than one third of the budget for the year 1923/24, thus ruining any hopes for monetary stabilisation.⁸³

Bethlen, combining the intelligence obtained from Britain and the results of the Teleszky inquiry, turned towards London. He dropped his opposition to working with Goode, who offered himself as an intermediary between Budapest and British officialdom. The Hungarian government extended an invitation to him. From this time⁸⁴ until 1941, Goode acted as the Hungarian government's semi-official adviser and agent, and in this period there were hardly any foreign transactions affecting the Hungarian treasury in which Goode was not involved.⁸⁵ His advocacy of the cause of Hungarian reconstruction, his intimate knowledge of the key personalities of the British financial and banking establishment, and especially his work in rendering the Hungarian case in precise English terms was invaluable for the Hungarian negotiators.⁸⁶

On 18 January 1923, shortly after his arrival in Budapest, Goode wrote to Sir John Bradbury, the influential British delegate at the Reparation Commission: 'The [Hungarian] Government are making a desperate attempt to hold the exchange and in doing so are exhibiting more courage and ingenuity [...] than most of the other Governments in Europe.'⁸⁷ When, notwithstanding the Hungarian efforts, the slide could not be arrested, Goode circulated a memorandum to the members of the Reparation Commission shortly after the Commission had suspended the reparation liens on Austrian assets and revenue. He pointed out the necessity of a loan for Hungary, and, as a pre-requisite to such a loan, 'the necessity of obtaining release of certain clearly defined assets and revenue from the reparation charge.' Simultaneously, Goode advised his Hungarian employers 'not to make any reference whatever,' while seeking a loan, 'to the controversial question of "transferred Properties,"'⁸⁸ to Hungary's future ability or inability to pay reparation and still less to any alleged injustice inflicted upon Hungary by the Peace Treaty.⁸⁹ Goode proposed that the Hungarians should first seek a short-term loan.

He feared that Hungary's application for a long-term loan would raise insurmountable difficulties through the question of control, as it was practised in the case of Austria. He believed that Hungary's neighbours would insist on supervising the administration of a large loan extended to their potential adversary.

It was, therefore, with this idea of trying to obtain a short-term loan that Finance Minister Kállay sent his envoy, Béla Schóber,⁹⁰ to London in March 1923. Goode accompanied Schóber, and often negotiated on his behalf. The British adviser explained to the Hungarians that if they wanted material progress, they would first have to get a hearing from the governor of the Bank of England, and that earlier plans drawn up by Teleszky and Kállay should be reconciled with the wishes of the representatives of the Bank of England and the Treasury.⁹¹ Schóber's first letter reached a governor who had already been briefed on the subject.⁹² The Hungarian emissary requested 'short-term advances which are urgently required in order to prevent the collapse of the Hungarian exchange and [...] to meet the deficit in the current Budget.' Schóber desired 'to take no step whatever in London without first obtaining your sanction' in anticipation of an application to the Reparation Commission for the release of such assets and revenues as may be urgently required [...].⁹³ Norman pencilled on the top of the letter: 'No short advances by London issues. Whole position needs outside examination, perhaps foreign Control. Certainly Rep. liens cancelled.' In other words, the governor was not interested in stop-gap measures. Because of these mortgages it would be difficult, if not impossible, to find creditors. In addition, the existence of the liens meant that the potential beneficiaries of the as yet unfixed reparations, largely Hungary's new neighbours, might demand payments to be made out of the amounts of the stabilisation loan itself. All these restrictive considerations introduced political factors into an exercise which the governor wished to keep exclusively financial.

2.3.3 The Establishment Swings into Action

The talks in London gave a momentum to the planning of a full-scale long-term international undertaking spearheaded by the Bank of England and the British Treasury. An optimistic Goode wrote from London:

we arrived at the compromise that Hungary should apply to the Reparation Commission for permission to obtain the advice and assistance of the Financial Committee of the League of Nations. [...] Failure to accept the compromise offered might have permanently antagonised [Norman] and the Controller of Finance at the Treasury.⁹⁴ [I]f you can see your way to doing what is suggested, you will have them as allies and in the world of finance they are more important than all the bankers, including the American bankers, put together, because the Americans [...] will not move an inch without the co-operation of London.⁹⁵

The question of reparations had impeded negotiations also for the simple reason that no definite figure had been put on them. Goode inquired about the likely dimensions of Hungarian reparations from Frederick Leith-Ross of the Finance Board of the Reparation Commission, Basil Kemball-Cook, assistant British delegate at the Reparation Commission, and Lord Inverforth, ship-owner and former British Minister of Munitions, but could not obtain definite answers, apart from indications that the amount was likely to be a hefty one.⁹⁶ In February 1923, the British *chargé d'affaires* in Budapest, John Balfour, complained to Lord Curzon that '[t]he uncertainty with regard to reparations is [...] a stumbling block to any improvement in the financial situation [...]'⁹⁷ France and Italy were still opposed to the suspension of any reparation charge prior to a definite amount being fixed for Hungary. The British were ready to mediate. However, there developed a conflict between the Treasury, whose representatives believed that the initiative to obtain the League's assistance should be taken by the Hungarians, while the Foreign Office suggested that the first step should be made by Sir John Bradbury, the British representative at the Reparation Commission.

The Central Department of the Foreign Office and the British Legation in Budapest monitored the developments leading up to the issuing of the Hungarian loan with avid interest. But while they received and conveyed messages, the Treasury and the British financiers were in the driving seat. The intercession by the Foreign Office to prevent a direct Hungarian appeal to the League Council was prompted by fears of French sensitivity in the aftermath of the Ruhr crisis. The Treasury, and

Niemeyer especially, adopted a 'Normanesque' view, which treated the Hungarian question as a purely financial problem. Niemeyer expounded the Treasury's position to Lampson, and through S. Armitage-Smith,⁹⁸ to the Reparation Commission as well. Niemeyer advocated that 'Hungarian reparations [...] be fixed at nil.' However, as 'Italy and the minor succession states' would object, Niemeyer suggested 'a 20 years postponement,' and priority should be given 'for the service of any approved loan for the period of the loan if more than 20 years (Austrian model).' Niemeyer urged that Hungary should 'be induced to apply to the League for advice as a starting point' and that lenders would need to be assured of peace between Hungary and its neighbours, of 'security of specific revenues for the loan,' and of acceptance by Hungary of 'an advisor to carry out a Budget balancing plan approved by the League's [F]inancial Committee.' Niemeyer also suggested an important deviation from the Austrian model that became an essential part of the final formula. Having satisfied himself of the reliability of Hungarian agricultural revenues, he declared: 'I do not think a guarantee is needed as in the case of Austria.' Norman's spirit was perhaps best encapsulated by Niemeyer when he wrote: 'If we could tie up another loose end in this way we should I believe, extend and increase our consolidation in South East Europe.' The Foreign Office was requested to uphold the Treasury's opinion: 'I hope the Foreign Office approve these notions (which I have mentioned to the Chancellor of the Exchequer)⁹⁹ and if so that you will do anything you can to push them.'¹⁰⁰

Lampson's answer betrayed the prejudices of a politician. He wrote about 'docile' Austrians, in whose case outside control was easy and Hungarians who were by nature 'the reverse.' He also pointed out that in the case of Austria the question submitted to the League was not that of reparation, 'but salving the ship of State long after the reparation question had been adjudicated upon by the competent commission.' If the Hungarians applied for advice to the League 'direct and forthwith, the French would interpret this as an endeavour to refer the question of reparation to the League.' They would oppose it for fear that it would create a 'precedent which could be appealed to in the case of Germany.' Curzon, Niemeyer was told, believed that the right procedure for Hungary would be

to state her case to the Reparation Commission for a twenty years' postponement of the liens on her revenues and for permission to pledge approved security for the service of the loan (as in the case of Austria). Once the Reparation Commission had sanctioned this request, Hungary would be free to take the matter up with the League.¹⁰¹

The Foreign Office were squeezed between their pusillanimity and their strong fear that Hungary might collapse altogether. At the end of March, Lampson told Niemeyer that Bradbury should be pressed to speed things up.¹⁰² The diplomats' opposition to direct appeal to Geneva coalesced with the wishes of the Hungarian side, because Czechoslovakia was on the League's Financial Committee.¹⁰³ Even the proposed approach to the Reparation Commission raised the question of assurance for Hungary that in asking for financial assistance it did not expose itself to the caprice of the Little Entente. Finally Niemeyer relented, accepting that the Foreign Office was 'in a better position than [the Treasury] to balance against [their] considerations the possible political effects of moving at once with the League' and therefore the Treasury 'acquiesce[d] in a prior application to the Reparation Commission [...]'¹⁰⁴ Niemeyer requested Eric Phipps, Under-Secretary at the Foreign Office to instruct Hohler in Budapest to tell the Hungarians to 'ask the Reparation Commission for leave to approach the League and that this policy has the support of HMG.'¹⁰⁵

The British, at length, succeeded in convincing France and Italy that without an external loan which could be administered practically, financial disorder would engender political instability pulling down the whole Danube region into an abyss of political chaos, and that therefore Hungarian reparations should be postponed and liens released.¹⁰⁶ Bethlen and his Finance Minister, Kállay, were encouraged to go to London, Paris and Rome in April 1923. On 4 May, in Paris, Bethlen formally applied to the Reparation Commission for lifting the reparation charge. His speech before the Commission was a well-drafted chronicle of Hungary's recent political and economic plight. '[T]he Hungarian people,' Bethlen told the Commission, were 'not merely sitting down and wringing idle hands over misfortunes.' But their measures failed to pre-

vent the 'deficit of 214 million Gold Korona in our Trade Balance for 1922 [...] and there will be another, [even worse] «passif» balance in the Trade figures at the end of [1923].'¹⁰⁷ The speech, which categorically excluded the raising of an internal loan in Hungary, a possibility which would be deemed technically possible by Western financiers,¹⁰⁸ received a cautious welcome by the Foreign Office. Nevile Butler, Cadogan and Lampson found that 'Bethlen's speech is good,'¹⁰⁹ but it was not within their jurisdiction to adjudicate on the matters raised in it.

The governor of the Bank of England anticipated the Hungarian application. He made it a priority to write to Bradbury at the Reparation Commission. Underlining that Hungary needed to be tackled without delay, he asked Bradbury:

Now that Czechoslovakia is more or less standing on her own legs [and] great efforts are being made to arrange for the Austrian loan, [w]ill you give this business a push in the right direction, and we will try to get the question taken up by the League or through some other channel.

Aware that the Hungarians were expected to object to outside control, Norman added: 'I daresay some sort of foreign control will be essential in addition to a release of all Liens.'¹¹⁰ Norman decided to see Bethlen and Kállay on the afternoon of 10 May¹¹¹ before the Commission in Paris reached a decision. The Hungarian premier and his Finance Minister made a good impression on Norman who praised their attitude to W. H. Clegg, the Governor of the South African Reserve Bank: '[They] promised to submit to foreign control and put all sorts of economies into effect.'¹¹²

The Hungarian emissaries were also received by Curzon, who had been briefed on the Hungarian situation in advance by Niemeyer. The Foreign Office was worried that in return for its acquiescence to the proposed scheme, the Little Entente would submit a demand for a complete change in Hungary's government. During the time of the Hungarian loan negotiations the representatives of the Little Entente countries in London and Paris submitted a large number of reports on skirmishes and other incidents along their borders which they blamed on the Hungarian side. Nevile Butler of the Central Department minuted on a

file dealing with the Hungarian loan proposals: 'The Little Entente have been suspiciously successful in amassing Hungarian misdeeds exactly at the moment when Hungary is appealing to foreign countries for help.' Cadogan concurred, stating that '[t]his is rather ominous, and bears out what we had heard by desp. from Belgrade—that the Little Entente were likely to demand, as the price of any mitigation of Hungarian reparations, a change of the régime in Hungary.' Lampson's minute, initialled by Crowe, reflected the Head of the Central Department's frustration: 'They are all hopeless—our only hold over them—such as it is—is the Inter-Allied Debt.'¹¹³

Hungary's pending application was also jeopardised by an even more complicated concatenation of European power interests. Lord Crewe, the British Ambassador in Paris, reported to Curzon that due to Mussolini's discontent with French policy in the Ruhr the French government was reluctant to cross Italy's path in any other matter and they had fallen in [...] with the wishes of the Italian Government, namely that members of the Little Entente should be consulted before the question was further considered by the Reparation Commission.¹¹⁴ Other reports were more encouraging with regard to the attitude of France and the Little Entente. M. A. Jean Doulcet, the French High Commissioner in Budapest, and Beneš were also worried about Hungarian bankruptcy, which lessened the likelihood of Little Entente resistance to the loan.¹¹⁵ The attitude of the Little Entente to Hungary's financial situation was ambivalent. On the one hand, they were understandably wary of supporting the creation of a prosperous and powerful Hungary. On the other hand, Hungary had to be able to pay reparations to her neighbours, and, especially in the case of Czechoslovakia, the early resumption of commercial ties with Hungary was one of the pre-conditions of normal trade in Central Europe. The attitude of the Little Entente had reflected this ambiguity since the co-ordinating discussions of the Little Entente nations and Poland preparatory to the Genoa Conference in April 1922.¹¹⁶

In spite of the incentives, the negotiations did not go well in Paris. Armitage-Smith, a British member of the Reparation Commission, informed Orme Sargent, counsellor of Embassy in Paris, that the French insisted that 'a portion of the loan be devoted to reparations' and that

they wanted to 'eliminate the intervention of the League of Nations.' When it became clear, Armitage Smith wrote, 'that the conditions which the French insisted on attaching to the derogation would render any loan impossible on the British or American markets, we pressed the thing to a division.'¹¹⁷ Curzon asked Crewe to impress upon the French government the necessity to consider the Hungarian scheme purely on its economic merits, 'to avoid a fresh crisis in Central Europe,' and also to allay the fears of the French government that 'relief action in Hungary with the assistance of the League might be quoted against them in the matter of German reparations.'¹¹⁸

On 11 May, the Hungarian Section of the Reparation Commission considered the Hungarian application. The British and the Italian delegations¹¹⁹ recommended that the Commission should agree to raise for twenty years the reparation charge on revenue needed as security for the loans, which loans should be negotiated and supervised by the Financial Committee of the League. This proposal was defeated by 5 votes to 4.¹²⁰ The French delegation, supported by Hungary's neighbours, put forward a counter-proposal, which stipulated that a part of any loan should be set aside for reparation. This proposal was carried by 5 votes to 4. It was on 23 May 1923 that the Reparation Commission decided by the casting vote of Louis Barthou, the French chairman, 'not to oppose in principle'¹²¹ the raising of the encumbrances on Hungarian revenues which might be earmarked as security for a loan. The Commission also decided, however, that the loan would be supervised from Paris, and more significantly, that a fixed part of it would be devoted to reparations.¹²² Various observations were placed on record by the common delegate of the Czech, Romanian and Yugoslav governments, the most important being that 'a great part of the loan should be applied to reparations' and 'an effective participation in the control of sums lent to Hungary must be assured to Roumania, Czechoslovakia and Yugoslavia.'¹²³ The Hungarian government immediately ascertained from lending houses that under this condition floating a loan was entirely out of the question.¹²⁴ Bradbury told his colleagues on the Reparation Commission that their decision meant that no loan could be raised in London. Goode warned Niemeyer that 'faced with this decision, the Hungarian Government were determined to resign forthwith,' and that the ultra-

nationalists of Gömbös were the probable alternative.¹²⁵ With Lampson's assistance, Niemeyer persuaded the Hungarian administration not to resign, promising further support from Whitehall to obtain a reversal of the Reparation Commission's decision.

Following the unsuccessful meeting in Paris, Goode and Niemeyer met Cadogan in London and suggested that the key to the situation would be afforded by a direct appeal to the countries of the Little Entente, which would bring France on board as well.¹²⁶ Niemeyer explained that 'Czechoslovakia [had] no [...] reparation claim against Hungary,' and that the British had 'some sort of hold over [Beneš].' Moreover, Niemeyer continued, 'Beneš want[ed] to raise money in this country.' The Romanians, Niemeyer argued, had 'already succeeded in raising their loan here, and we consequently have not the same forcible argument to use with them.' As 'the Romanians had pillaged a large part of Hungary,' Niemeyer judged that 'Hungarian reparations may not, or certainly should not, be such an immediate question with them.'¹²⁷ The opposition would mainly come from the Yugoslavs.¹²⁸ Niemeyer concluded that, as the British did not 'possess any useful means of pressure' over the Yugoslavs, '[i]t would seem best [...] to work on them through the Czechs.'

2.3.4 Norman's Czech Card

Norman was aghast at learning the outcome of the Paris negotiations. His instinctive reaction was to see French machination behind the political restriction imposed on the Hungarian scheme. He surmised that 'the French seem to have been in league with the Little Entente and the Little Entente seemed to have been poked forward by the Czechs.'¹²⁹ Alluding to a *Times* article on the failure of the Paris talks, Niemeyer wrote to Goode: 'I have [read] the Times' leader [...] and immediately sent a copy of it to Pospisil in Prague with a comment that it but mildly represents the exasperation reigning in this country over the Reparation decision.' Niemeyer at once contacted the Foreign Office urging them to 'make strong representations to the French, Czechs, Rumanians and Serbs about the idiocy of their proceedings.' French action, in his view, amounted to 'wilful obstruction of reconstruction in Europe.' If the Czechs, via the Foreign Office, Niemeyer wrote, could be reminded, that

they could not receive further loans, 'we may expect things to get in proper train.'¹³⁰

It was Barings, the influential merchant bank, which had issued the first tranche of the Czechoslovak loan in London in 1922, and it was through them that Norman could exercise leverage. 'I do not think,' he wrote to Gaspard Farrer of Baring Brothers, 'this is the way the Czechs ought to behave. How does Mr Pospisil¹³¹ explain it and what consideration does he expect to receive in London for helping to shut the door in the face of his neighbour? Doesn't it all mean more trouble and unnecessary trouble?'¹³²

As early as 1921, when the Czechoslovak government had been exploring ways of obtaining the (so-called eight per cent) loan referred to above, Norman had used the opportunity to influence the financial decisions of the Czechoslovak government.¹³³ In June 1923, armed with information that much of Beneš's prestige at home depended on obtaining the second tranche of this loan, as well as further London issues necessary for maintaining a balanced budget, and that Czechoslovak delegates were about to visit Britain to procure such issues,¹³⁴ Norman signalled to Niemeyer that

An occasion is now likely to arise when [a further issue of the Czech loan] might well be undertaken.

In view, however, of the attitude of the Czechs having prevented the Reparation Commission from agreeing to grant the release recently requested by Hungary, I have informed Messrs. Barings that until the decision of the Reparation Commission shall have been altered and an arrangement for the economic rehabilitation of Hungary shall thus have been made possible, I should strongly advise H. M. Government not to facilitate a further issue of the Czech Loan.

I know you would agree that this advice is in the interest of Europe as well as of this Country.¹³⁵

While Norman knew that the proceeds of the second tranche of the eight per cent Czechoslovak loan were earmarked to pay debts which were owed to the British Treasury, he remained determined to pursue his

course. He also shared 'regret [for] miss[ing] possible favourable opportunity for marketing second tranche as these opportunities do not often recur.'¹³⁶ Nonetheless, both Niemeyer of the Treasury, and Strakosch at the Financial Committee of the League were on his side. With virtually the whole financial apparatus behind him, Norman felt confident to represent the case towards the Foreign Office, whose permanent head, Crowe, though supporting the rehabilitation of Central Europe, as one of the architects of the post-war settlement, could not be expected to share Norman's enthusiasm for Hungary. Norman reminded Crowe that he was 'about to have a visit from the Czech Minister in London on the subject of a Loan which his government desires to raise in London without delay.' Crowe was told that

we are having a great deal of trouble with the Czechs—and with the Roumanians too—about the rehabilitation of Hungary which we regard as being of the highest importance to Europe. We are determined to prevent both the Czechs and the Roumanians from raising money in London until the position of Hungary has been secured.

Norman enclosed the copy of a telegram, which had been sent, at his suggestion, by Barings Bank to Pospíšil at Prague, informing the Czechs that the second instalment of their loan was being put on hold. The telegram read as follows:

Barings to the Banking Office of the Czechoslovak Finance Ministry through the Czechoslovak Legation in London, 7 June 1923: [The second tranche of the 8 per cent loan will not be looked upon with favour by the British government] 'so long as Czechoslovakian Government by its attitude before Reparations Commission continues to debar economic rehabilitation Hungary (stop) We wait to hear whether it will be possible for your Government to take such action as will modify this attitude (stop) [...] We feel confident you will understand that we should hardly wish to move in matter without entire accord with and approval of His Majesty's Government.'¹³⁷

Norman admitted that 'this is a financial rather than a political question,' but asserted that he '[did] not hesitate to ask for your support in the line we have taken—and intend to take—in the interests of Eastern Europe.'¹³⁸ Crowe, the Permanent Under-Secretary replied that the Foreign Office itself had been thinking of acting along the lines that Norman had suggested 'but for a tiresome case of obstruction by Hungary,' which concerned military control as required by the peace treaty. Nonetheless, he conceded that 'we need delay no more.'¹³⁹

At the instance of the Foreign Office, the Hungarian government made an appeal in the form of a note to each of the governments represented on the Reparation Commission, urging them to reconsider the May ruling.¹⁴⁰ On 4 July, Cadogan informed Norman that Clerk had been instructed in Prague to convey to the Czechoslovak Minister of Finance that 'the attitude displayed in the telegram recently sent to him by Messrs. Barings in regard to the Czechoslovak eight per cent State Loan has the approval and support of His Majesty's Government.'¹⁴¹ Norman was 'gratified to note'¹⁴² this development. The official government view was expounded before the House of Lords by Curzon, who stated that '[We] desired to prevent the financial collapse of Hungary, and earnestly hoped that the Reparation Commission would reconsider their decision and refer the question without delay to the League of Nations.'¹⁴³

The governor widened his campaign of pressure to Romania, when he informed John Noble and Helmut Wagg, merchant bankers in London,¹⁴⁴ that Romania 'should have no money before Hungary as they opposed Release of Latter's Reparation Liens in Paris.'¹⁴⁵ Both Beneš and Vintilă Brătianu, the Romanian Finance Minister, visited London in the middle of July, Beneš again in August, and protested against the linkage of financial and political matters. On 20 July, Beneš saw Curzon and told him about the difficulty he was having in 'overcom[ing] the opposition of the nationalists in his own country,' while 'he himself fully realised the necessity of avoiding a Hungarian collapse.' He 'professed to welcome the idea of [...] an interview between himself and the Hungarian Prime Minister.'¹⁴⁶

Niemeyer wrote to Goode on 2 and again on 3 July, informing him that the French government began to realise the mistake that had been made

at the Reparation Commission, that the British government were making renewed representations to France, and that both Czechoslovakia and Romania wanted money which they could only find if they showed a collaborating spirit. Niemeyer also suggested that 'Count Bethlen should find some spot where he could meet his Balkan friends, particularly Dr. Benes.'¹⁴⁷ Entries in Norman's office diary show how keen he was to disseminate his views on the blocked Hungarian loan. Between 5 and 12 July 1923, he discussed the situation with G. M. Young and Spencer-Smith of the Anglo-Austrian Bank, with Brătianu, the Romanian Finance Minister, Mihai Oromulu, the Governor of the Romanian National Bank, and Jan Masaryk, the son of the Czechoslovak president. On 5 July he noted: 'Benes is free to come to London—but the City takes no part in his domestic politics and is not ready to take future loans.'¹⁴⁸ For the morning of 12 July, when he met Brătianu and Oromulu, he entered:

[D]isappointment that Roumania with others prevented Rep^{ion}. Com. from giving Release to Hungary [...]: (rather bitter arguments & B[rătianu] said G. B. made no attempt to consider position and needs of 'Allies' while anxious to help enemies).¹⁴⁹

On the afternoon of the same day 'Benes, Masaryk *fil*s & Spencer' met Norman, who recorded: 'Every question about Europe. Except Loans in London for Czechs for Refusal of Release to Hungary by Reparation Com.'¹⁵⁰ Norman remained adamant. When, at a later date, Beneš objected 'that any condition at all was added to an arrangement that he considered definitely concluded,' he minuted the dispatch from Prague: 'I shall *not* write an answer for Sir George Clerk.'¹⁵¹

It is important to point out, however, that Norman's determination to secure a loan for Hungary did not stem from any particular leaning towards the post-war government of Hungary, which he regarded as 'autocratic,' and whose decisions, in his view, had 'no democratic support.'¹⁵² What he objected to was the kind of attitude expressed by his Romanian visitors in July, which divided Central Europe from the inside and into Britain's friends and enemies. As he put it, 'we here all consider the financial requirements of Eastern Europe to be interdependent.'¹⁵³

Meanwhile, the Little Entente discussed their relations with Hungary at their conference held from 28 to 30 July at Sinaia, Romania.¹⁵⁴ Norman's intercessions had a palpable influence on the conference, which showed signs of relenting on the Hungarian issue. They

agreed to give their consent to raising of mortgage on Hungarian revenue for period of years on condition that (a) they should participate in control of expenditure of loan [...] and (b) payment due by them to Hungary for ceding properties for amount aggregating their own claims on Hungary should be postponed for a like period.¹⁵⁵

The conditions set at Sinaia, while removing the main hurdle, still left some difficulties in place. The proposals were submitted to the British government on 14 August in the form of identical notes by the Little Entente representatives in London. The Foreign Office reply urged Hungary's neighbours to release the liens, which had, by this time, become a symbol of their post-war authority to control Hungary, in time for the meeting of the Council of the League on 28 August.¹⁵⁶ However, no such arrangement could be effected. By this time, the Foreign Office was at one with the Bank of England and the Treasury in trying to remove Czechoslovakia's virtual veto from the Hungarian reconstruction scheme. Clerk in Prague and Hohler in Budapest held confidential talks along lines suggested by Niemeyer to facilitate a direct meeting between Beneš and Bethlen either in Czechoslovakia or Geneva by early September.¹⁵⁷ Nicolson, by no means a friend of Hungary, assured Norman that the Foreign Office had 'pointed out to Sir G. Clerk [...] that it is perfectly comprehensible and legitimate that financiers should hesitate to lend money to Czechoslovakia while the Hungarian question remains unsettled.'¹⁵⁸

Bethlen, taking advantage of the meeting of the League of Nations' Assembly, met Beneš and the other Foreign Ministers of the Little Entente in Geneva on 6 September 1923. In return for a positive attitude on their part, Bethlen promised the cessation of official Hungarian propaganda against them, as well as the conclusion of commercial, financial and legal agreements. According to Bethlen's notes, a development of cardinal importance occurred on 17 September at a dinner given by Jo-

seph Avenol, Deputy Secretary General of the League, where Sir Arthur Salter, the head of the Financial Committee, revealed the 'magic formula,' which he had worked out, no doubt in close co-operation with Norman, for the Hungarian loan. In accordance with this formula, the details of the reconstruction scheme

will have to be sanctioned by the Council of the League, but it would also have to be submitted to the Reparation Commission for approval. The control of the execution of the plan will be the task of a control commission on which the creditor countries of Hungary will also be represented according to a formula which will be elaborated later.¹⁵⁹

A key element of the plan, which had not followed the Austrian precedent, was that it wedded together the League of Nations and the Reparation Commission for a particular purpose in such a way that the functions of the Reparation Commission remained formal only. Another novel idea in the Salter solution was that it offered a share of control in the loan scheme for the Little Entente in return for proportionate participation in the loan extension. While this proposal broke the impasse, it posed little threat to the original version as any Little Entente participation would exist under the dominating shadow of the majority British participation. The Salter proposal also specified a tentative figure of a £10–12 million stabilisation loan to be applied within a two-year stabilisation period. Bethlen asked for a construction in which the remit of the League Commissioner-General would be more limited than that of Alfred Zimmermann's in Austria. Any unpalatable measures must be seen to originate with the Hungarian government and not a foreign 'dictator' or 'controlleur', he told Salter. The British chairman listened approvingly. By the end of the talks, only a slight disagreement remained between Bethlen, who wished to see the removal of the liens by October, and Beneš, who only thought it possible by December 1923. Nicolae Titulescu, the Romanian representative at the League of Nations, signalled his dissatisfaction with the recommendations; he did not feel that Romania's requirements vis-à-vis Hungary were met by its provisions,¹⁶⁰ but, as Niemeyer had earlier surmised, the Romanian objections did not

amount to a veto within the Little Entente. Goode informed Niemeyer that 'Dr. Benes declared to Count Bethlen, on behalf of the Little Entente, that they agreed that the League should be asked to elaborate a plan for the financial restoration of Hungary' without further reference to the reparation liens.¹⁶¹ This agreement was notified to the Council of the League in a letter signed on 21 September by all Foreign Ministers of the Little Entente.

2.3.5 'General unsettlement and cold feet'

On 29 September, the Council of the League unanimously adopted a resolution with the approval of the interested parties, which authorised the Financial Committee to collaborate with the Reparation Commission, should the latter request them to do so, and invited the delegates of Hungary and the Little Entente to sit as members of the Council at meetings dealing with the Hungarian question.¹⁶² As a condition of their acquiescence in the scheme, however, the Little Entente powers were still asking

1. that they be directly represented by one of their officers on the Inter-Allied Commission of Military Control at Budapest, and
2. that they be required to make no payments in respect of Liberation Bonds so long as Hungary is exempted from reparations payments. In the case of Austria the Little Entente governments did not insist on corresponding conditions...¹⁶³

The military representation of the Little Entente in Hungary was obviously not acceptable for the Hungarians. This was one reason why further pressure had to be brought to bear on the Little Entente from outside, both in the form of coercion and of concession. Suspension of the payment of the so-called liberation debt could be a concession. Under the peace treaties, Czechoslovakia owed 750 million gold crowns, Yugoslavia 200 million, Romania 235 million.¹⁶⁴

At home, Bethlen was criticised by the liberal opposition for not having negotiated with the Little Entente directly from the start, thus prolonging the negotiations, and by the right wing for accepting the control

of the Entente powers over Hungary's sovereign business. The Hungarian Prime Minister rebuffed these arguments when he told Miklós Kozma, the Military Secretary of the Regent's cabinet office, that without the Western powers 'there would be no loan. The Little Entente did not acquiesce in giving a green light to the loan because it wants to help but because it cannot do otherwise under British [...] pressure.'¹⁶⁵ In one important respect, however, Bethlen misrepresented the results of his mission. He also told Kozma, that as a 'concomitant result, the payment of reparations would be put off for such a long time that they would never take place.'¹⁶⁶ Bethlen stretched the facts, as the agreement in Geneva only referred to a permission for Hungary not to *have to* pay reparations from the loan, not that it should not be paid at all, or even be postponed indefinitely.

In other respects, the Hungarian case progressed speedily. On 17 October 1923, the Reparation Commission requested the League's Council to have a plan drawn up and declared that any forthcoming loan should be given priority over reparation. The Commission's previous decision insisting on the loan being used in part to pay reparation had been disregarded tacitly, on the understanding, however, that Hungary should resume reparation payments as soon as budgetary equilibrium was attained. After notice of this decision had been given to the Council, the League's Secretariat and the Financial Committee began their work at the end of October by sending a mission to Budapest to study the situation on site.¹⁶⁷ Strakosch, Niemeyer, and other members of the League's Financial Committee met in London between 20 and 28 November to consider the report of the League of Nations mission to Budapest.¹⁶⁸ During the London discussions, Sir Robert Kindersley chairman of Lazard Brothers and a director of the Bank of England, suggested to Norman that Hungary had made good progress in her domestic economy and finances and could also raise a loan domestically. Kindersley received a terse rebuff from Norman,¹⁶⁹ who rather concurred with the views of Wagg and his partner, Palache, who told the governor following their visit to Hungary that 'Hungary can pull thro alone in 4-5 years but sentiment needs Loan + sympathy from West to ensure internal control & good neighbourly relations.'¹⁷⁰

It was during the London negotiations that a certain degree of jock-

eying started for the position of the Commissioner-General, the 'Controller' of Hungary's League loan. The names of various bankers and financiers were put forward from the major European capitals. These were all effectively turned down by Norman's insistence that the chief administrator of the Hungarian stabilisation loan 'should not come from any interested country but from a Neutral.'¹⁷¹ Norman also sounded Strong in New York for a possible American contender for the job.

The London session of the Financial Committee adopted a report for submission to the League Council, which recommended the foundation of an independent bank of issue for Hungary, a reconstruction loan, secured by specific Hungarian revenues, sufficient to achieve budgetary equilibrium without further inflation by 30 June 1926, and a control régime appointed by, and solely responsible to, the Council of the League.¹⁷² After the conclusion of the Committee's business, Norman received Kállay, the Hungarian Finance Minister, in the company of Goode, and told them: 'as soon as Comr. Gen installed & plan fully adopted, send competent Delegation here, privately & then elsewhere—I will direct them to proper Bankers.'¹⁷³

The scheme elaborated by the Financial Committee was presented to the Council of the League which approved it on 20 December 1923. In return for their acquiescence, the Little Entente countries demanded that their political, military and financial conditions vis-à-vis Hungary be met, and that their liabilities under the peace treaty towards the principal Allied powers, i.e. the liberation bonds, be suspended.¹⁷⁴ Following the Austrian precedent, a Hungarian sub-committee was established.

When Beneš, still resentful of the Hungarian reconstruction proposals, visited London in January 1924, Nevile Butler at the Central Department alerted Curzon (just a week before the resignation of the Baldwin government) to the conditions attached by the Little Entente, 'and to please them, by France.' Butler judged that they were 'so burdensome that the Governor of the Bank of England is finding it impossible to get British houses to invest.' Beneš, continued Butler,

thinks or pretends to think, that his Majesty's Government are pressing for unnecessarily favourable conditions for the loan in order to enable British financiers to make a good thing out of it. It

seems certain that either Mr. Montagu Norman or Mr. Niemeyer could make mincemeat of this contention. At the same time there now seems a definite probability that Benes' attitude will wreck the League scheme with all its consequences, and that a year's work will be wasted.¹⁷⁵

On 22 January, the new Hungarian sub-committee resolved that the text of the protocols be transmitted, in its final form, to the Reparation Commission, but the French and Little Entente delegates were not prepared to sign.¹⁷⁶ The Romanian delegate, Titulescu, who had acted as chief spokesman of the Little Entente at the previous meetings of the sub-committee, made it clear that pending the suspension of the so-called liberation liabilities, the Romanian government would not sign the protocols. The French reservations, privately communicated to Bradbury, were even more discouraging. The French would have liked to see a stipulation requiring assigned revenues to be controlled by the proposed Control Commission, the actual lenders and the Relief Bond holders, and that following the liquidation of the loan, the assigned revenues should remain as *gages* for reparation payments and that the Reparation Commission should only raise the first charge on the revenues when the lenders, the Control Commission and the Relief Bond holders had come to an agreement, approved by the Reparation Commission, as to the equitable distribution of the assigned revenues. These conditions were entirely unacceptable for the Bank of England and the Treasury. Lord Crewe in Paris was instructed to hand over to Poincaré, the French Prime Minister, a note in which 'His Majesty's Government expressed the belief that the French would share their desire that the Reparation Commission should not miss the opportunity of demonstrating that they were a useful body. It was further pointed out that it had been the casting vote of Louis Barthou that prevented the work of reconstruction to begin in Hungary in the spring of 1923, and that it would be unfortunate if the commission were 'to expose themselves a second time to the charge that, through the incorrect appreciation of practical financial conditions, they had prevented that work of reconstruction.'¹⁷⁷ This representation proved to be successful, and the Reparation Commission finally released the Hungarian revenues, as suggested by the Financial

Committee, on 21 February 1924. At about the same time, the countries which had granted relief loans, amounting to around £500,000, to Hungary after the war, complied with Hungary's request to postpone the priority charge they had on Hungarian assets and revenue in favour of the reconstruction loan. The joint decision of the Reparation Commission and the Financial Committee qualified as an amendment of Article 180 of the Treaty of Trianon in so far as it accepted specified revenues from reparation charges. The revenues thus made available as security for the envisaged loan were:

1. gross receipts of the customs;
2. gross receipts from the government's tobacco monopoly;
3. net receipts of the salt monopoly;
4. gross receipts of the sugar tax; such of the other revenues and receipts of the Hungarian government, other than the State Railways and the revenues thereof, as may be required for the service of the reconstruction loan.¹⁷⁸

The amount of treaty charges imposed for twenty years was fixed on the basis of a total payment of 200 million gold francs, and a schedule showing the annual payments was annexed to the decisions. These payments were arranged on a gradually increasing scale but devised not to endanger the equilibrium of the budget. The entry into force of the protocols was contingent upon their being signed before 31 March 1924, and that the Council of the League should notify the Reparation Commission before 31 December 1924 that it undertook the responsibility to complete the reconstruction plan contained in the Geneva protocols. The British heads of mission in Paris, Budapest, Bucharest, Belgrade and Prague were instructed to urge the host governments to sign the protocols immediately, which they did on 14 March.¹⁷⁹

Against Norman's wishes, a political protocol had to be signed by the countries interested in Hungary's reconstruction, in which Hungary promised to strictly observe all its obligations under the peace treaty. Largely due to British influence, the protocol did not rule out Hungary's moral right to seek territorial revision by peaceful means.¹⁸⁰ Czechoslovakia also acknowledged with satisfaction that its 'liberation debt'

towards the West had been suspended in return for Little Entente accession to the Hungarian agreement.¹⁸¹

An attempt was made at this time by a number of leading Hungarian Social Democrats to connect the question of the loan with party politics. They contacted their colleagues in the British Labour Party and requested them to try to obtain the linking of British support for the loan project to British insistence on the democratisation of the Horthy régime in Hungary; but the Foreign Office and the Treasury wanted to have nothing to do with this initiative.¹⁸²

As compared with the assistance programme initiated for Austria two years before, the Hungarian loan scheme showed three essential differences:

1. The amount of the loan was fixed at 250 million gold crowns (about £12 million), as against 650 million for Austria. The lower estimate was justified by the fact that Hungary, being an agricultural country with a considerable export surplus, the amount of foreign exchange it needed for stabilising its currency was much smaller than in the case of Austria.
2. Government guarantees, as secured for the Austrian loan, were not stipulated for Hungary, as Hungary's economic reserves were sufficient to secure the interest service and the amortisation of the loan.¹⁸³ This concession reflected a high degree of confidence in Hungary's political stabilization.
3. Unlike Austria, which had been freed from all kinds of reparation payments for the whole term of the loan, Hungary's liability to make reparation was maintained both in principle and practice. The Reparation Commission, when suspending the reparation lien, put Hungary under the obligation to pay the Commission 200 million gold crowns in yearly instalments over a period of 20 years coinciding with the period of the loan.¹⁸⁴

The beneficiaries of Hungary's reparations obligations, the successor states and Italy, agreed that Hungary would not make reparation payments in any year of the reconstruction period unless such payment did not endanger Hungary's budget balance. In return for this agreement,

the Western powers proportionately waived the liberation costs charged on war-time allies who had been part of the dissolved empires. Reparation payments were also made conditional on whether the new Hungarian central bank issued the necessary foreign exchange. The part of the agreement dealing with the relationship between reparations obligations and the availability of foreign exchange, a system of paying reparations in local currency, but only remitting it abroad if the exchange was available, was an especially valued financial know-how.¹⁸⁵

From the spring of 1924, the question of raising the loan itself moved the fulcrum of Hungary's fate even more decisively to London, to the offices of the Treasury and the Old Lady in Threadneedle Street. At this point, however, the momentum of the process was suddenly halted. Norman, the engine behind the initiatives, decided that the conditions granted for Hungary in Geneva and Paris were not satisfactory. He had already criticised, in the summer of 1923, the idea of maintaining reparations claims on Hungary during the reconstruction. After the loan conditions had been published, and reparations had not been suspended entirely, Norman declared his opposition. On 9 January 1924, he emerged from his favoured position as private facilitator, and addressed the Bank of England's Committee of the Treasury, a council around the governor's office.¹⁸⁶ He told the directors that because 'the charges under the Treaty of Trianon [...] would be payable by Hungary during the currency of the Reconstruction Loan, [...] the Bank could not approve or support the Scheme in any way.'¹⁸⁷ Salter expressed disappointment and was 'indeed aghast',¹⁸⁸ Strakosch pleaded with Norman to reconsider his stance and arranged for a second high level Hungarian delegation to meet him. Bethlen, Kállay and Goode visited the governor on 23 January. Cecil Lubbock, Norman's new Deputy Governor, who was known to be inclined to compromise on the conditions of lending, was also present.¹⁸⁹ The Governor informed his visitors that

at present the political and financial conditions, here and elsewhere, made the issue of such a Loan impossible in London: but [...] even if conditions became more favourable [...] under the present Scheme no money could be raised here, owing to the arrangement by which Treaty charges might become payable during the

currency of the Loan. [...] The complete postponement of Treaty or Reparation payments was even more necessary in the case of Hungary than it was in the case of Austria, owing to the absence of those international guarantees to which the success of the Austrian Loan was so largely due.

When Bethlen inquired about the possibility of a short-term loan, the Governor tersely replied that 'no short-term Loan could be issued unless, without any doubt, it would shortly be followed by a long-term Loan; as to which he could hold out no hope.' The Hungarian Prime Minister expressed regret, but thanked the Governor for 'speaking so plainly.'¹⁹⁰

From a dispatch to Strong, it transpired that Norman's pessimistic attitude towards Britain's new Labour government played an important part in his sudden change of heart. He considered that 'general conditions both political and financial would make the issue of a Loan impossible at present time. Please treat this as secret.'¹⁹¹

In the meantime, the mechanism set in motion by the League loan agreement was not stopped. The Reparation Commission approved the proposals on 21 February, and the necessary protocols were signed in Geneva at the League Council held from 10 to 15 March 1924. At the same time, early in March, Strakosch led a League delegation to Budapest. The mission stayed for three weeks and established the basic régime for the reform of public revenues and the establishment of an independent central bank.¹⁹²

Another step in the advancing chain of events was the appointment of a commissioner-general of the Hungarian League loan. After a succession of failed attempts,¹⁹³ on the recommendation of Thomas Lamont of J. P. Morgan and Boyden, the name of the Boston financial lawyer, Jeremiah Smith, was put forward. Salter and Strakosch found him suitable. He accepted the appointment on 5 April, and took up the post in Budapest on 1 May.¹⁹⁴ Smith, whose acceptance of the job Norman attributed to 'a moment of enthusiasm,'¹⁹⁵ had earlier taken part in the so-called Chinese Consortium and the adjustment of the Mexican national debt, and had been a member of the American peace delegation in Paris as adviser to the Treasury Department.¹⁹⁶ His deputy, Royall Tyler, was also American. The measures worked out by the visiting committee

of the League were adopted by the Hungarian parliament before the Easter recess.¹⁹⁷ Hohler reported on 24 April that 'Count Bethlen succeeded in his endeavour to push the whole series of legislative acts necessitated by the action of the League of Nations, with a view to the economic rehabilitation of Hungary, including, of course, the balancing of the Budget for the next 2½ years, through the National Assembly before it broke up for [...] Easter.¹⁹⁸ The bills were attacked once again by the right wing. Bethlen retorted that rather than being a limitation on sovereignty, the arrangements were conducive to emancipation from the post-war restrictions, since control would be executed no longer through the Reparation Commission, but through a citizen of a neutral state, acting on behalf of the League of Nations.¹⁹⁹

Encouraged by these developments, in late March, the Hungarian Minister in London, Count László Szapáry, sought an interview with Deputy Governor Lubbock, to find out whether the governor's veto was still holding. Lubbock told him that 'in view of the Treaty charges that would be payable during the currency of the Loan, [...] the Governor's views were still the same as those which he expressed to Count Bethlen a few weeks ago.'²⁰⁰ In one of the most characteristic expressions of his scepticism in this period, Norman wrote to his Dutch counterpart, Gerard Vissering:

to you I ought not even to mention the Scheme for the reconstruction of Hungary without saying how doubtful I am of the prospects of raising the foreign loan [...] even though [...] the payments for reparations [...] take second place to the service of the loan.²⁰¹

Thus, between December 1923 and May 1924 a two-track process was pursued with regard to Hungarian reconstruction. But why did the governor withdraw his support from the scheme in such a radical fashion? And did he really change his mind? At least part of the answer lies in strict British state control on international transactions.²⁰² Although the Overseas Trade (Credits and Insurance) Act 1920 allowed exceptions to be made, London-based lenders did not commit themselves to loan schemes to foreign parties without the consent of the Bank of England, which meant Norman himself. Norman's support during the early phase of the Hungarian

negotiations was essential. For him to obstruct the process at that stage, without allowing any leeway for the representatives of the Little Entente, would probably have destroyed the Hungarian scheme. After the official League formula had been obtained, however, Norman felt free to continue to exert pressure towards what he regarded as the ideal conditions for a reconstruction loan with the pound as reserve currency.

Another likely reason why Norman became suddenly cautious towards anything but the cleanest type of foreign loan transaction at the end of 1923 was, as has been alluded to before, the fall of the Conservative government over the issue of the introduction of trade tariffs in order to combat unemployment. The possibility of the accession to office of a Labour government for the first time in Britain, filled Norman with misgivings. In one of the rare expressions of his views on domestic politics, Norman vented his fears to Strong:

[T]o translate Protection into practice we must have a General Election, because of a statement made last year that the present Government would not alter the fiscal policy of this country. [Unemployment] to my mind, is likely [...] to remain uncured for a long time, if not to prove incurable. [T]he alternative to a Conservative Government seems to be Labour (Socialism) or the Extreme Left—whatever it happens to be called—and with this, as a cure for the bogey of Unemployment, you have the worse bogey of Confiscation or Capital Levy, & c.

The mere idea of these bogeys brings about our present sufferings: depreciation in exchange, favouring of course your dollar: instability of London: general unsettlement and cold feet.²⁰³

In the event, none of Norman's fears regarding the Labour administration were vindicated. Philip Snowden, the new Chancellor of the Exchequer, did not rush to introduce protectionist measures, and also wholeheartedly embraced the foreign loan projects.

2.3.6 *The Government Steps in*

By April 1924, the Treasury establishment and the Foreign Office had been fully committed to the idea of a League loan for Hungary. Therefore, the conditions were ripe for Norman to receive a political request to intervene on the restricted money markets, and share the responsibility for such an intervention with the politicians. The first indication that the Hungarian scheme could receive formal endorsement from the highest levels of government arrived from the Treasury Chambers. Niemeyer asked Norman to assist in carrying out the League plan for Hungary, reminding him that the process had in the first place been set in motion by the governor himself. His ostensibly light-hearted allusion to King Richard III could not have left Norman untouched:

[N]ow that we know and support the Experts' Report the new orientation which you postulated has in fact arrived. All that I hear of the progress in Hungary and its effect on their neighbours is very satisfactory; and it is to me unthinkable that this lusty twin should be stifled in London of all places, by a wicked uncle in the Tower, Threadneedle Street E.C.

I know that His Majesty's Government emphatically desire the Hungarian scheme to be carried through and will be quite willing to say so, *if you wish that one*.²⁰⁴

A few days later, the chancellor sent Norman the political undertaking he needed:

[T]he time has now arrived when, for the success of the Scheme, it is necessary to provide a foreign Loan for the Hungarian Government. His Majesty's Government are very desirous that the Scheme, started by the League, should be carried to a successful conclusion, and I venture, therefore, to ask for your assistance.²⁰⁵

In a reference to the private American sponsorship which broke the deadlock over the question of German bankruptcy and reparations, the chancellor placed the Hungarian project into the wider context of

European reconstruction: 'I think you will agree that the Dawes Report opens a new prospect for the resettlement of Europe and creates a situation which should modify the objections which I know were felt in some quarters in the City to certain aspects of the Hungarian Scheme.' The chancellor's letter made all the difference. Norman immediately set out to deal with the most important aspect of a possible London issue. Already on 7 May, in anticipation of the chancellor's letter, he had informed the Committee of Treasury that an official request was expected from the government 'that every assistance should be given to the issue of a [Hungarian] Loan in London.'²⁰⁶ Strakosch sent a telegram to Jeremiah Smith, the League's Commissioner-General in Budapest, telling him that the ground had been prepared, and he should inform the Hungarian government to send a loan delegation to London forthwith.²⁰⁷ Norman had already discussed the question of Hungarian reconstruction with Anthony and Lionel de Rothschild, the most likely issuers of the loan, in January 1924. Anthony de Rothschild had contacted Kuhn Loeb & Co. of New York who contemplated the handling of an American tranche.²⁰⁸ At that time, the bankers reached a gloomy conclusion. Four months later, in anticipation of Snowden's letter, Norman met Anthony de Rothschild again, and secured a statement from him to the effect that the London Rothschilds would be 'glad to handle the Hungarian Loan, if at all possible.'²⁰⁹ Norman wrote to Niemeyer: 'With reference to the Chancellor's letter of yesterday [...] I suggest that the Hungarian delegation on their arrival here be asked to call first on Messrs. Rothschild in order to discuss with them the proposed issue of an Hungarian Loan in London.'²¹⁰ Norman also directed the Hungarians to open negotiations with J. P. Morgan & Co. in New York: 'As regards an Hungarian issue in New York I have told Messrs. Rothschild that Representatives of the League are already in touch with Messrs. Morgan.'²¹¹ The British government, Norman wrote to Vissering, 'now deem it politically expedient to proceed with the Scheme, [...] and I shall [...], in view of this decision, now give it *every support* in my power.'²¹² The governor simultaneously gave the go-ahead to Baring Brothers' issuing the second tranche of the Czechoslovak loan in London.²¹³

To facilitate the Hungarian loan scheme, Norman informally nominated a small mission to negotiate on the capital markets. The Hungarian

government was represented on the team by Teleszky, while its strong man was Peter Bark,²¹⁴ who had been involved in the Czechoslovak loan transactions as well as the placement of the Austrian reconstruction loan. It was intended that one third of the £12 million would be issued in European capitals, including Paris, one third in London, and one third in the United States.²¹⁵ However, from the very start, the scheme encountered difficulties. On 23 May, Bark wrote the first of his disquieting dispatches to Norman from Paris. His detailed negotiations with the Rothschilds and Morgan Grenfell led to the following considerations:

Messrs Rothschild [...] disappointed us by the terms they contemplate [for raising the] four million pounds in cash on the London market. They thought it advisable to issue such a type which might not be compared either with the Czechoslovak Loan or with the Austrian Loan. [...] The Czechoslovak Loan gives a yield of 8.29, excluding the premium of redemption, Messrs Rothschild thought that the Hungarian Loan ought to be issued at not less than a rate of 8½ effective yield [...] I consider [the] yield of 8½ per cent [...] very hard.

[...] The participations of America and of the Continent are not at all definite. [...] It was stated that the different foreign loans, except the Austrian one, had no success in the United States.

I am accustomed to bad news during loan negotiations, but that is rather a bad start.²¹⁶

A day after, Bark telegraphed that the New York issue could not go ahead as planned.²¹⁷ Although the Quai d'Orsay would have wished for a French contribution for political reasons,²¹⁸ the Hungarians, before their departure to Berne and Rome, were effectively told by Georges Robineau, the Governor of the Bank of France, that due to liquidity problems, Paris could not participate, either.²¹⁹ The London issue was also in trouble; it appeared that the City could only absorb £3 million instead of its envisaged share of £4 million.²²⁰ Norman contacted Baron Bruno Schröder, head of the London merchant bank, J. Henry Schroder & Co., to see if anything could be done in Vienna, but did not receive a positive answer.²²¹ In addition, the Hungarians were asking for £3 million of

‘fresh money before the 15th June’²²² to establish the new central bank and to stop the printing press. The Hungarian reconstruction programme was running into yet another crisis. Bark had to draw the conclusions: without the direct intervention of the Bank of England, ‘this second reconstruction programme of Central Europe of the wide scheme you have in mind’ is not going to be possible.²²³ Norman telegraphed to Bark and also to Rome that, probably due to the attitude of the New York market, the loan could not be launched. The governor also made clear that the ‘flotation of [the] London portion [was] (also) impossible unless [the] whole amount of loan [was] assured.’²²⁴

2.3.7 *The Four Million Pounds*

The new crisis appeared to be even greater than the obstruction caused by the persistence of the reparation liens. Reparation liens were a question of politics to which a political solution was applied in two phases; first ‘money diplomacy’ was co-opted by the Foreign Office and pressure was exerted on the Little Entente, secondly, the Chancellor of the Exchequer took government responsibility for potential financial risks. Now, however, a purely financial difficulty arose in the course of implementation. While Norman often declared that politics and finance should be kept apart, he had to transcend this precept yet again. Without another intervention by the government, the Hungarian scheme would have foundered. Norman consulted his colleagues, Strakosch, Niemeyer and Lubbock in Geneva and London, as well as the chancellor, Snowden.²²⁵ The talks resulted in a radical formula, which Norman announced to the Committee of Treasury of the Bank of England on 28 May 1924.²²⁶ According to the new proposals, the British government would directly subscribe £4 million of the Hungarian loan, and would make immediate cash advances from this amount. The British state had not gone this length in meeting the reconstruction needs of any other country in the aftermath of the First World War. Thus, almost £8 million of the £12 million Hungarian reconstruction loan was scheduled to come from British sources. Norman saw the chancellor the following day to obtain the necessary formal intervention. Snowden issued the following historic letter:

Dear Mr. Governor,

You know from my letter of the 7th the importance that H.M. Government attach to the success of the League of Nations scheme for Hungary. I am informed that the Hungarian Delegation and their League Advisers see no prospect of obtaining more than about £4,000,000 in London and £4,000,000 on the Continent towards the £12,000,000 which is considered essential to ensure the success of the scheme. The position is critical and provision for the additional £4,000,000 is needed without delay. The plan is endangered by the unwillingness of America to participate in the loan, and in these circumstances it can only be carried through if the whole loan can be placed in Europe. I realise that for the Bank of England to participate in a foreign loan would be a wholly exceptional transaction—one in fact which in normal circumstances it would be impossible to ask you to support.

But I am deeply impressed with the urgency and importance of the Hungarian scheme, and I feel that in the interests of European reconstruction I must appeal for your help. Apart from the internal position in Hungary itself a number of political agreements whose conclusion has substantially improved the relations between Hungary and her neighbours and which are together a great contribution to stability in Central Europe depend on the scheme. In addition the League is so deeply committed to the scheme that I fear its prestige, on which its power for every purpose depends, would be fatally injured by a failure.

I believe these considerations will nowhere be better appreciated than in the City of London, and I hope very much that we may be able to retain the reputation we have achieved by fostering reconstruction. I venture, therefore, as a question of public policy and in what I regard as quite exceptional circumstances, to ask your support and aid.²²⁷

The Bank of England's priority loan primarily served the purpose of filling the gap left by the diffidence of the New York market, and, to a minor extent, to deal with the short-term needs of the Hungarian Note

Issuing Institution.²²⁸ This is indicated by a telegram sent by Strakosch to Jeremiah Smith in Budapest, summoning a delegation of senior Hungarian financiers to London:

London unwilling to issue loan unless whole 250 Millions²²⁹ covered (Stop). With American abstention there is apparently a gap of at least three million sterling (Stop). After great difficulty we see a chance of bridging this gap and also providing some part of temporary June needs by an arrangement between Bank of England and present Note Issuing Institution and Hungarian National Bank as their successors (Stop). Details difficult explain by cable therefore send Popovics²³⁰ immediately to London [...] Please impress Government that situation is most difficult and that it is only by exceptional measures that loan can be raised (Stop).²³¹

The telegram was repeated a few hours later with the following addition: 'You will see from above that we expect to bridge American gap but it is essential to raise outside England at least 4 Million (Stop). Salter will explain position on your arrival Geneva.'²³² There was one dissenting voice in the Bank of England against the project to help Hungary in such an exceptional way. It was that of one of the directors of the bank, Robert Lydston Newman. Newman, a wine merchant and Deputy Governor between 1913 and 1915, 'a leading representative of the old type of Director, [...] a reminder that the pre-1914 Court included merchants as well as merchant bankers,' who became a persistent critic of Norman's governorship through the 1920s.²³³ Following the 'Court on 29 May [where] the Hungarian loan of £4,000,000 [was] proposed,' Newman felt

most strongly that it is not the sort of business that the Bank of England should be involved in. [It is] quite outside our sphere to be having financial excursions with the back of beyond countries of Europe—bolstering up derelict states with our stock holders' money.²³⁴

On 4 June, Norman informed the Committee of Treasury, that 'he had received a letter from the Chancellor of the Exchequer [...] asking for the Bank's participation in the Foreign Loan to be raised on behalf of Hungary' and also read the letter from Newman 'expressing disapproval of the proposed advance.'²³⁵ Anything more than putting on record the director's objection could not be expected, and Newman resigned himself to this state of affairs.

2.3.8 Driving Britain's Bargain: The Norman-Popovics Agreement

The withdrawal of the American market from the Hungarian loan scheme, which did not surprise Norman, opened the way for involving Hungary in an even more ambitious scheme: the revival of sterling's pre-war permanent exchange rate with gold, which was considered as a major step towards the restoration of the pound's role as the world's reserve currency. In the case of the stabilisation of the Austrian krone, Norman did not insist that the sterling exchange of the revalorised currency should be the standard of the stabilisation, but he did make it a point that monetary reserves should be concentrated in London, which he achieved by demanding the exclusivity of relations between the central bank of Austria and the Bank of England.²³⁶

It was R. G. Hawtrey, the Treasury's Director of Financial Enquiries, Norman's trusted ally, and whose views, predictably, never appealed to Strong in New York,²³⁷ who had suggested in 1920 that: '[t]he natural [*numeraire*] currency to choose is the U.S. dollar, which is at its gold par. But it is to our interest to induce European countries to choose sterling. We do not want to smooth the way for New York to become the financial centre of the World.'²³⁸

In early 1924, Norman made an ambitious bid, in connection with the stabilisation of the German mark, to set up a

Golddiscount Bank [...] out of reach of the Reparation Commission [...] to recover the liquid assets which have gone overseas from Germany; to provide a more or less stable Note (based on Sterling) which may be safely held by Germans; [and] be used for working capital for trade. All for the good of Sterling!²³⁹

To Vissering, Norman explained that

the “Gold Bank” would be free from dependence from America. I am aware, of course, that sterling is now depreciated in terms of gold: but it remains the main basis on which European Exchanges are operated and [...] as Europe obtains no financial assistance or co-operation from America, Europe should no longer attach herself to the basis which for the present America controls.²⁴⁰

The Americans disagreed, and eventually Norman conceded to Strong:

I am not sure that [...] the European currencies were not better stabilised on Sterling than on Gold [...] But as conditions are changing [...] the Dawes Plan apparently stipulates for a Gold valued currency and your view is therefore to prevail.²⁴¹

The Hungarian *Sanierung*, without American participation and a massive British subscription underwritten by the British state, proved to be Norman’s opportunity to put into practice his long-contemplated plan for the stabilisation of a European currency against the pound. This was in spite of the fact that the Hungarian scheme to Norman’s mind was ‘a curious mixture of good and bad. So far as Reconstruction goes it is the former; but [it] perpetuates a bad Treaty; recognises Treaty charges alongside reconstruction...’²⁴² The basis of the emerging special scheme was what Lipót Baranyai,²⁴³ in his summary of Sir William Goode’s papers, called a ‘secret arrangement,’²⁴⁴ concluded between the Bank of England and the nascent Hungarian central bank²⁴⁵ during Popovics’s visit to London between 2 and 5 June 1924. The preliminaries had been agreed in advance of Popovics’s arrival between Norman, Strakosch, the Deputy Governor, Lubbock, and the chief cashier, Sir Ernest Harvey.²⁴⁶ The final agreement contained a system of stringent conditions, which reflected the interests of the Bank of England as lender and as the issuer of the reserve currency of the loan. The terms, committed into writing in Budapest on 14 June 1924 in two sets of clauses, both countersigned by Jeremiah Smith, the American Commissioner-General, stipulated that the bank would advance £4 million to the Hungarian Note Issuing Instit-

ution²⁴⁷ under the control of the League's Commissioner-General. The money would be secured on six months Hungarian treasury bills deposited with the Bank of England which would be 'exchangeable in due course free of charge' with bonds issued of the long-term reconstruction loan. The advance was to yield an interest of one per cent over the prevailing bank rate, but a minimum of 5 per cent, and was 'due for repayment on the 30th June 1927.' Additional security was granted by the proviso that the proceeds of the London issue of the long-term loan would be paid into the Bank of England. The points which entailed the most exacting commitments from the Hungarian side were contained in clause no. 9 in the first set, and clauses 1-4 in the second set of clauses:

So long as the office of commissioner-general continued to exist—moneys derived from the issue of the Loan (including the Advance by the Bank of England) to remain under the control of the Bank of England until actually certified by the Commissioner-General as being required for the particular purposes contemplated by the Re-construction Scheme.

The said moneys 'may be invested temporarily by the Bank of England for account of the Note Institution in short-term British Government Securities.' The Hungarian government would have 'to undertake to pay over to the National Bank of Hungary all foreign valuta of which they are, or may become, possessed.' The standard with reference to which the National Bank of Hungary will pursue the policy of stabilisation 'enjoined in Article 1 of the Statutes of the Bank to be the Pound Sterling.' The relationship of the Bank of England and the National Bank of Hungary will be characterised by mutual exclusivity, and very importantly: 'So long as any part of the Advance remains outstanding the National Bank of Hungary to be prepared on the recommendation of the Bank of England to increase their minimum rate of discount.'²⁴⁸

The secret deal went beyond the original remit authorised by the League of Nations for the Bank of England or any other central bank. The basic idea of the League stabilisation plan was that the League of Nations would stand guard over the implementation of the loan scheme, and by implication, would act as surety vis-à-vis foreign lenders. Nor-

man's conditions secured privileges for the British central bank which were not granted to other lenders participating in the scheme.

It needs to be recorded that, as far as personalities were concerned, Popovics was no underdog. He was a member of an older generation, who was as bewildered by the politics of the post-Versailles age as Norman, and wished, from his position, to rectify as many of its defects as possible. He also urged the creation of a 'European international' of central banks, whose natural epicentre was the Bank of England. A special relationship between him and the British governor promised him a strong negotiating position in the domestic contest between the new Hungarian issuing bank and its anticipated adversaries, the politicians of the Ministry of Finance, the Ministry of Agriculture, and the representatives of the merchant banks.

2.3.9 The Foreign Adviser

The most active link between the Bank of England and the new National Bank of Hungary was the person of the newly appointed foreign adviser of the National Bank, the British currency expert, Harry Arthur Siepmann. The Financial Committee of the League, in their original report, had recommended that in order to increase the confidence of the lenders it would be necessary temporarily to employ at the National Bank of Hungary an adviser with a suspensive power of veto and appeal to the Commissioner-General. Norman did not wish to fill this position by a British nominee, but by either a neutral or an American expert. Aware of the opinion of the diplomats of Central European countries which were in the French sphere of influence, most notably Poland, Czechoslovakia and Romania, that the League of Nations had become an instrument of British policy under the joint influence of the Bank of England, the British Treasury and the Foreign Office, and that the liaison between the Bank of England and the German Reichsbank was all too strong, he feared any impression of overt preponderance of British participation in the League of Nations reconstruction schemes.²⁴⁹ The question was complicated by the fact that Charles Schnyder von Wartensee, the foreign adviser of the National Bank of Austria, earlier vice-president of the National Bank of Switzerland, whose appointment to Vienna had been

delayed several times in early 1923,²⁵⁰ resigned in early 1924. Therefore, Norman desired the name of a suitable successor to Austria²⁵¹ as well as a new adviser to Hungary.²⁵² Many, including Albert Janssen, the Belgian Finance Minister, suggested candidates.²⁵³ Norman admitted that 'the position is obscure, the country remote and the screw (perhaps \$10,000) unattractive.'²⁵⁴ Siepmann,²⁵⁵ who finally got the job, was originally selected (presumably by Blackett and Strakosch) to serve directly under Jeremiah Smith as a member of the League control team, and had already been staying in Budapest. It appears that Norman had little regard for the future bank adviser before his appointment. Commenting to Blackett on Siepmann's short transit from his previous post in India through London to Budapest, Norman wrote:

I wonder if you realise that the wretched Siepmann came to London at Easter, stayed here three or four days only and went straight off to Buda-Pest where he has an interesting and more or less permanent job as Financial Adviser.²⁵⁶

At the time of Siepmann's appointment, Norman had still been toying with the idea of replacing him once a more suitable person was found and reinstating him into Jeremiah Smith's staff. Writing to Blackett five months later, however, the governor passed a positive judgement on the novice banker: 'Incidentally, I may add that our good friend Siepmann is doing fine work in Hungary and making good.'²⁵⁷ Norman had hoped that Siepmann could liaise between him and Blackett, Siepmann's former superior in India, now stationed in Geneva and travelling on League business in Europe: 'So far I have missed contact with Siepmann and the contact with yourself which I hoped to get through Siepmann,' he wrote to Blackett. While the adviser in Hungary could not fulfil this function, absorbed as he was entirely in the National Bank of Hungary's business, he produced a constant flow of correspondence addressed to Norman or occasionally to Lubbock, Deputy Governor of the Bank of England.

Even the obliging Siepmann had, before their signature, found the conditions to be imposed on the Hungarian national bank through the Norman-Popovics agreement tough and the use of sterling as the 'kernel

currency' of stabilisation of questionable value for Hungary. Siepmann, who had not yet turned 35 years of age, pointed this out in a sharply worded letter to Norman:

[F]rom this end, your conditions seem stiff. Imagine a Government in power here at a time of trade depression, after a bad harvest, with plenty of unemployed [...] Just at this time, shall we say, you are linking yourself gradually up with gold again. In order to maintain parity with sterling, the Hungarian Government is to see a contraction of the currency, a further disturbance of the price level, a further setback to business. All this on account of an agreement between two Central Banks with which the sovereign Government is in honour bound not to interfere [...]

The same would be true, I admit, of stabilisation in terms of gold: but your calling it sterling adds a risk of an additional 10 per cent of price depression. Still, beggars can not be choosers: and we simply must have the money. Pride is a sentimental luxury—like hatred of Jews & Czechs, and pro-agrarianism—which these people will have to learn that they cannot afford. Naturally, I am doing all I can to induce them to sign up.²⁵⁸

Norman's response was an itemised refutation of Siepmann's arguments:

You say the conditions are stiff, and you mean 1) the clause about sterling and 2) the clause about Bank Rate. If Hungary is to borrow two-thirds of her foreign requirements in sterling, I cannot see the least hardship in her currency being based on sterling; or, to put it another way, I cannot see that she is a whit the worse off for moving, as I confidently believe, with sterling to gold parity over a series of months or years rather making a jump to gold parity the day after to-morrow.

Norman's diversion revealed how he saw the Hungarian reconstruction scheme fit into the larger system of European financial rehabilitation in which America's role was restricted to that of a distant partner called to step into the breach in an emergency. 'I think,' he continued,

every European War-country that is adopting gold parity immediately is making a mistake from Europe's point of view. The best example so far is Austria, which was based for some ridiculous reason on the dollar and having borrowed all she could in Europe has transferred all her funds to America: she has thereby impaired her credit in Europe and now obtains nothing from America. The same may happen in Germany under the Dawes plan.²⁵⁹

Two days after the conclusion of the secret agreement with the Hungarians, as if to test his American colleague's reaction to the Hungarian deal, Norman broached the subject in a rhetorical fashion to Benjamin Strong:

Is it necessary [...] that Hungary should start off with a Gold currency? If so she must transfer the proceeds of her foreign loan to New York in order to avoid the risk of exchange. Is she not justified in basing her currency on Sterling and hoping, as I confidently do, that over a few months or years Sterling will attain parity with Gold and her currency at the same time will become a Gold valued currency?²⁶⁰

The questions posed in the governor's letter were somewhat insincere as the die had already been cast.

As to Siepmann's contention that the Bank of England's control of the bank rate in Hungary would not reflect the seasonal needs of the Hungarians, the governor had this to say:

Your picture of a cold winter and falling price level appears to show that to further the endeavour of London to reach gold parity I should require the Hungarians to raise their Bank Rate. I think it would work the other way. If all other countries will have a low rate and allow us here to have a high rate, we shall the more quickly get back to gold parity. But, as a matter of fact, the object of that clause, so far as I am concerned, is *entirely* different from what you suppose. Consider these instances.

[...T]he President of the Austrian Bank has more than once during the last few months attempted to raise the Bank Rate and until last week was regularly out-voted. The Viennese Bankers &c. on the Board have fattened at the cost of the Austrian Community by discounting at a low rate with the Central Bank but the people who have chiefly profited have been the speculators. The credit of Austria has suffered; so has foreign estimation of her Securities. Now, my dear fellow, is it to the interest of Hungary that this story should be repeated there? [...]

I look upon [the bank rate only] as useful in order to ensure support to a restrictive policy of the President, and the Adviser, as opposed to certain Directors of the Bank.²⁶¹

Whether Norman's rejoinder convinced Siepmann or not, their differences on these fundamental matters would not surface thereafter.

2.3.10 *The League Loan is Launched*

The Norman-Popovics agreement marked the beginning of a period of uniquely close co-operation between the Bank of England, the National Bank of Hungary and the Hungarian government. The floating operation was carried out and brought to a successful end in all the participating markets.²⁶² With the apparent success of the launch, an American syndicate, led by Speyers and the Equitable Trust Company, joined in and offered their tranche on the American market on 3 July totalling £1,733,606.²⁶³ The American issue changed the balance of the rest of the loan construction, including the British portion. Norman explained to Popovics the new situation:

In consequence of the arrangement made for the issue in New York of a Dollar tranche of the Loan, the amount of cash to be raised in London, inclusive of the sum advanced by the Bank of England, was reduced to approximately £6,500,000. It was found that to provide the gross total of cash required it would be necessary, on the basis of a net yield of 82%, to create Bonds to the nominal value of £7,902,700 [...] including [...] any to be issued to the

Bank of England in exchange for Hungarian Treasury Bills under the provisions of no. 2 of the conditions of the Memorandum of Agreement of the 14th ultimo [the secret agreement].²⁶⁴

By 14 July 1924 the main Western (British, American, Italian, Swiss, Dutch and Swedish) tranches of the loan were subscribed successfully providing a subtotal of £13,274,543. The £7,907,700 portion was issued in London on 2 July, which Norman acknowledged with satisfaction to Bethlen.²⁶⁵

In August, a Czechoslovak and a Hungarian tranche was issued, the former amounting to £568,845, all of which was taken over by the Böh-mische Industrie- und Landwirtschaftliche Bank.²⁶⁶ This Czechoslovak component was made necessary as a result of French²⁶⁷ and Spanish non-participation. The Hungarian government was extremely reluctant to accept this solution, but were persuaded by the British.²⁶⁸ The Hungarian portion was issued for £543,495, on which the principal and interest were payable in dollars, and more than half of which was taken for the American account, principal and interest being payable in New York.²⁶⁹ The entirety of the loan issued amounted to £14,386,883 and thus, in spite of the fear of under-subscription, overshot the target.²⁷⁰ The rate of issue was 88 per cent on average (as opposed to the 80 per cent of the Austrian loan), and the rate of interest was 7.5 per cent (as opposed to the 6 per cent of the Austrian issue).

The stabilisation of the Hungarian currency in relation to the British pound sterling was attained gradually towards the end of 1924, and a few days before the close of the year the first normal budget of independent Hungary was presented to the national assembly. Sir William Goode pointed out to a British audience that the scheme for Hungary was a

benefit to [Britain by] encourag[ing a] well-directed measure which enables Central Europe to feed itself instead of importing grain from America. By assisting agricultural production in Hungary, where the currency is stabilized on the Pound Sterling and where the finances are under League control, we not only reduce the European demand on dollar exchange but we go a long way towards reducing the cost of our food.²⁷¹

2.3.11 *The Bank of England and the National Bank of Hungary*

The National Bank of Hungary began to operate on 24 June 1924. Of its seven major shareholders two, the Anglo-Austrian Bank and the Midland Bank, were based in London, the largest shareholder being the National City Bank of New York. All restrictions in Hungary on the 'export of goods [...] and the centralised administration of foreign [exchange] were to be gradually abolished.'²⁷² Decontrol also meant the phasing out of the *Devisenzentrale*, the 'insurmountable barrier' the British, including Norman, often had complained about.

The inauguration of the new adviser to the National Bank of Hungary took a high profile: 'the Governor [Horthy] will appoint and swear me in,' Siepmann wrote in a letter.²⁷³ He expressed his wish to 'establish [regular] contact [with Norman] in matters both of policy and of detail,' and asked Norman to continue to act as his 'mentor.'²⁷⁴

For the duration of his two-year tenure in Budapest Siepmann formed a kind of triumvirate with the president and the director of the banking and exchange department, Dusán Tabakovits, which effectively managed the National Bank of Hungary.²⁷⁵ The three agreed that at no time would all of them be away from Budapest, which they duly kept until May 1926.²⁷⁶ As ordered by Popovics, immediately following his inauguration, Siepmann proceeded to London to discuss details with Norman. In spite of the coincidence of Siepmann's visit with a conference on the Dawes Plan, Norman allowed ample time to hear the new adviser. Following his return to Budapest, Siepmann began to write to the governor with such frequency that even Norman, an ardent advocate of personal contacts, could not catch up with the correspondence.²⁷⁷ Norman soon forwarded 'several longish letters' from Siepmann to Strakosch asking the latter to read them for him.²⁷⁸ After a while, with few exceptions, Siepmann's detailed letters were excerpted, and Norman often answered batches of them rather than each one separately. Siepmann was a faithful disciple of Norman. On one occasion, he wrote: 'The doctrine which I seem to have learnt from you [...] is that [...] it [...] should prove possible to substitute other means for the traditional diplomatic and political means of associating nations.' The bank adviser saw an opportunity to revive earlier aspirations to create a working alliance of central banks:

One part of the new methods is to work for the association of Central Banks. But [...] this [...] needs to be supplemented by some sort of spiritual association. [...] In India I came to the same conclusion. The personal 'gulf' was only one part of the immense national 'gulf'.²⁷⁹

As early as August 1924, the British adviser set out to adapt the Normanesque concept of Central Bank co-operation to an envisioned association of Central Banks in Central and South-Eastern Europe. He would have liked to see Hungary, the countries of the Little Entente, Poland and Austria drawn into this circle. The difficulty was that the National Bank of Hungary had no, or only meagre, balances kept with these central banks. Siepmann lamented:

On our balances with Central Banks we can earn nothing at all. Consequently, the only accounts we keep with other Central Banks are in Austria and Norway. [...] We are paid no interest on the Austrian account.

The only Central Banks which have accounts with us are the Austrian and the Serbian. [The latter earning 2 per cent.]

Furthermore, the Austrians were 'in the habit of placing considerable balances with the leading private banks in Budapest.' But Siepmann had taken steps:

We have now written to the Bankamt²⁸⁰ in Prague, the Roumanian National Bank and to the Serbian National Bank asking them to propose terms (which we offer to reciprocate) on which we could concentrate business with them and they with us.²⁸¹

Siepmann also recommended a number of maverick measures. For instance, to cut costs, he suggested that the bank should limit its gold holdings: 'Gold and the principles on which you would have us base our use of foreign balances both cost money.'²⁸² This theory had already been pre-empted by Lubbock,²⁸³ and was now similarly discounted by Norman, explaining that, in addition to the psychological benefits of high gold cover, the

Hungarian bank would soon have to increase it in preparation for the convertibility of Hungarian banknotes.²⁸⁴ Popovics also confirmed this strategy.²⁸⁵ In another instance of unusual suggestions, Siepmann, who found the Hungarian press 'revolting,' proposed that a Hungarian 'paper should be acquired [...] and its chief business asset should be the right to steal, without acknowledgement and without limit, from the Times [in Hungarian translation].' Siepmann had already written to the Editor of *The Times* to sketch this notion, but he received 'no acknowledgement.'²⁸⁶

By contrast, in the same letter, the bank adviser perspicaciously observed that

We are sufficiently near to Russia to be tremendously impressed by the mere size of the place, its manpower and its potential wealth; and I think that one assumption common to those Hungarians who try to take the long view would be that Russia, in the long run, must be a decisive factor, compared with which all the succession states and most of the Great Powers, allied and enemy alike, are mere pygmies.²⁸⁷

While these suggestions were made at a time of improving Anglo-Soviet relations, they were unlikely to have impressed Norman.

Siepmann was quick to embrace the interests of the Hungarian central bank; he was its loyal employee. On one occasion he remarked to Norman: 'It is my duty, I suppose, to forget, as far as may be, that I am an Englishman.'²⁸⁸ However, he found it difficult not to remark on missed British opportunities in Hungary. As British businessmen and traders continued to practise their pre-war habit of stopping in Vienna to peer into the rest of Central Europe as an unknown and risky abyss, Siepmann felt obliged to comment on the absurdity of such conduct as seen from his own position in Budapest. He warned that

We seem to be missing commercial opportunities right and left, largely as a result of a failure to appreciate the rapidly shifting values in Central Europe. Firms which have agencies in these parts still seem to regard Hungary as hinterland, to be looked after from Vienna, and when concrete propositions are put up from here they

are apt to be treated in an offhand way which gives our competitors quite unnecessary advantages and also [...] causes [disappointment] to people with genuine British preferences...²⁸⁹

Siepmann's position was a delicate one. His task was to deliver his best personal knowledge and services in the interests of the National Bank of Hungary, in a scheme which organically tied the National Bank to the Bank of England. The Viennese *Neue Freie Presse* exposed this duality in a way that could not be comfortable reading in London:

Der Vertreter des Völkerbundes Shipman [*sic*], [...] beeinflusst die Diskontpolitik sowie die Devisenpolitik im Sinne der Wünsche der englischen Nationalbank, das ganze Kreditgeschäft, das Devisengeschäft und Diskontgeschäft wird nach den Auffassungen der Bank von England geleitet.²⁹⁰

The day-to-day correspondence between Siepmann and the management of the Bank of England concentrated on such issues as the bank rate in Hungary, purchases of gold, and the keeping of sterling and gold balances in London, preparations for the periodic summit meetings between Norman and Popovics in London, and the plans for the launching of a new gold-based currency in Hungary at the end of the intensive reconstruction scheme.

The main question discussed during Popovics's visit to London in October 1924 was the way of tackling the seasonal fluctuations of income experienced by the National Bank of Hungary due to the agricultural cycle. Popovics requested recourse to stand-by credits from other central banks, which practically meant the Bank of England. After lengthy debate, Strakosch proved ready to grant 'facilities,' but no-one could agree on the nature of the necessary collateral.

It was this debate that prompted a wider discussion with regard to the possible creation of a co-operative alliance among the newly constituted central banks of Europe. With the successful resolution of the German reparation problem, the experts of the British Treasury and the Bank of England could pay more attention to the financial problems of the smaller countries of Central Europe. Austria, Hungary and the gov-

ernment of Danzig complained of similar problems. The Vienna stock exchange collapsed in the first quarter of 1924, and the president of the Bank of Danzig also applied for a stand-by credit.²⁹¹ It was Popovics, in the wake of his visit to London, who developed the ideas discussed at the Bank of England with Norman, Lubbock and Strakosch into a complex proposal. He came up with the remarkably modern idea of the creation of a 'new organism,' a 'Federal Reserve Board of Europe,' which would mediate between central banks, while managing a fund raised by the member banks out of their reserves. Siepmann endorsed the scheme wholeheartedly. He had already complained about the prohibitive costs of holding gold, as it incurred capital loss due to the appreciation of sterling. If Popovics's suggestion was accepted, some of the gold could be transferred, without an actual pledge on it, and thus, 'we should be able, in trying times, to shift some part of the burden temporarily on to other shoulders.' A security which at the same time was not a pledge was of course a legal impossibility. Norman was very reluctant even to discuss the question of using Hungarian gold as cover, had even suggested that to pledge gold without declaring the resulting lien 'exposed [the central bankers] to the risk of imprisonment.' Popovics wished to blur the issue by proposing that the gold would only be 'provisionally pledged.' As far as Siepmann could see, 'this would amount to our receiving an advance on the security of our name and not of our gold, and would therefore involve something scarcely distinguishable from the giving of an advance without specific security.' Nonetheless, the 'facilities' granted were real. Siepmann explained the resulting situation to Norman in a way which he knew would earn the governor's maximum goodwill:

[Popovics] conceives the arrangement—and I think we all do—as a voluntary arrangement between Central banks, emphatically not Governmental and in fact so international as to be almost anti-national. [...] It is, for example, a direct denial and reversal of the conception that a Central bank should be, as in France, an instrument of nationalist policy. [...] Cooperation of Central banks is a logical complement to the League idea. [...] The opportunity would be offered by the League, but the foal, so to speak, would be a young Central Bank and not an offshoot of the League itself.

Hereafter, Siepmann carefully expressed his and Popovics's thinly veiled criticism of the possible perpetuation of the current arrangement in which the small central banks entirely depended on the whims of a 'super-bank,' rather than living off their pooled resources.²⁹² Whereas Norman did not respond to the latter allusion, he instructed Strakosch to seek guidance from the Financial Committee of the League with regard to the granting of 'facilities' secured on nothing more than domestic bills. In their reaction, the Committee endorsed the proposal in the 'Genoa spirit,' and used Siepmann's expression, 'League central banks,' in reference to future participants. In their opinion, such central banks should have the capacity to borrow and lend against domestic bills with the proviso that the borrower's currency had to be stabilised either on sterling or gold, i.e. dollar.²⁹³ Following Siepmann's visit to London in November 1924, the Bank of England opened special accounts with the national banks of Austria and Hungary.²⁹⁴ During Siepmann's visit, the management of the Bank of England worked out with him the details of a system of conditions for co-operation between central banks.²⁹⁵ In the document entitled 'Co-operation Between Central Banks, Conditions of Temporary Advances by the Bank of England to Other Central Banks Against Foreign Currency Bills & Gold,' the conditions set out for the collateral of advances were as follows: 'The currency of Bills pledged must be (a) that of a country with a balanced Budget and (b) successfully stabilised on gold or sterling.' Another document was drawn up under the title 'Ordinary Facilities Offered by the Bank of England to Central Banks,' which included a reference to the controversial issue of the holding of gold 'earmarked,' but not actually pledged as security.²⁹⁶

A particularly intractable issue throughout the reconstruction period was the question of the so-called *Geldinstitutszentrale*, a state institution in Hungary which appeared to Norman as a device through which the Hungarian government evaded earlier commitments by continuing to interfere with the autonomy of note issuing and the setting of bank rates by the new National Bank. In both Siepmann's and Norman's opinion, Popovics did not exert sufficient pressure to terminate or curb the activities of this institute. On one occasion, next to Siepmann's words: '[the Geldinstitutszentrale] looks [...] much too much like a Central Bank and like a State Bank,' Norman remarked on the margin: 'Should be sup-

pressed.²⁹⁷ However, a memorandum prepared after Siepmann's visit to London in June 1925 acknowledged that, however unorthodox, the institute 'is useful as a "hospital" and a "buffer",' and therefore had a role to play in the peculiar circumstances of Hungarian finances.²⁹⁸

2.4 BALANCE SHEET

2.4.1 *During the Term of the Loan*

There is more than one way to measure the success of the Hungarian stabilisation operation. On the positive side, the 7½ per cent League of Nations loan bonds were successfully traded. Norman informed Siepmann that, compared to the issue price of 88, the Hungarian bonds in London showed a steady increase, standing at 94¼ in the first week of December 1924, 94⅜ in the second week.²⁹⁹ Export restrictions were gradually abolished, while a 5 per cent duty had to be paid on each consignment.³⁰⁰ The parallel raising of import controls and the introduction of customs tariffs resulted in increasing prices, without an accompanying increase in wages, and this meant pure—higher than expected—revenues for the budget. The yield of the credits advanced to the debit of the League loans, and from July 1924, the revenues generated from the loan itself, were credited to a closed account kept with the National Bank under the supervision of the Commissioner-General. Jeremiah Smith sent twenty-five meticulously drafted monthly reports to the League of Nations until June 1926 on the state of the Hungarian budget and on the balance of the 'locked' accounts kept for the revenues generated by the incomes of the state mortgaged as collateral of the 1924 government loan.³⁰¹ On the negative side, at least in the initial stages, the Commissioner-General required the wage-earning population to make serious sacrifices. On Smith's recommendation, public victualling and price control boards and coal committees were abolished. Many government offices were joined together. 33,000 government employees were dismissed from service, including the police force and schoolteachers, 6,991 of them on the last day before the League control budget came into

effect.³⁰² As part of the fiscal austerity, per capita taxes rose on average by 35 per cent compared to pre-war levels.

The first budget in Hungary based on gold was introduced on 27 February 1925 by the new Minister of Finance, János Bud, as the state incomes acquired an unexpected momentum. Before 30 June 1925, the end of the extraordinary fiscal year, Smith reported results to the Financial Committee of the League that even the most optimistic estimates could not have foreseen. Instead of an expected deficit of 100 million gold crowns, the Hungarian budget showed a surplus of 90 million.³⁰³ As a result, the part of the loan provided to finance the deficit was not utilised. At the end of the control period, the final balance sheet showed that the expenditures exceeded the requirements of the scheme by about 10 per cent, while the revenues exceeded it by 40 per cent.³⁰⁴ The income generated by the revenues mortgaged to cover the loan amounted to seven times the amount necessary for the total servicing of the loan. Therefore the League's control was gradually relaxed. As Smith put it in his final report to Geneva: 'So long as the yield gave a safe margin (which in normal circumstances would be always) it would be possible to limit the control to little more than a statistical observation of the results, without any interference in the management.'³⁰⁵

Following sterling's return to gold, with the consequence that the Hungarian paper crown also became a stable measure of value, the Hungarian budget for 1925/26 was calculated in paper crowns instead of gold crowns. On 21 November 1925 a Hungarian government decree removed all restrictions on dealing in foreign exchange. On the same day, Siepmann reported: 'Simultaneously [with the decontrol of foreign exchange transactions] we pass from sterling to gold basis. Our future transactions with you will therefore be at middle daily rates on Budapest market nett to you.'³⁰⁶

Apart from the central banks of the dominions of the British Empire, the central banks of some neutral countries in Europe, and the Federal Reserve Bank of New York, the Bank of England developed a closer and more confidential relationship with the National Bank of Hungary than with any other central bank in the world. It was quite clear, however, for everyone concerned that the choice between sterling and dollar (which

would have meant gold) as the *numeraire* of stabilisation had serious consequences for the Hungarian economy. The stabilisation of the value of the Hungarian *korona* in terms of sterling was effected on 31 July 1924 at a \$4.3937 exchange quotation of the pound to the dollar in New York. As the pre-war gold parity dollar value of the pound had been \$4.866 56—and it was the declared policy of the British Treasury to return to that standard—it was easy to see that the decision to stabilise the Hungarian currency against the pound entailed the gradual revaluation from the original £1 = 346,000 koronas by 11 per cent of the Hungarian korona within the near future. This was in addition to the 10 per cent artificial boost to the external value of the korona that the National Bank of Hungary carried out in anticipation of the stabilisation scheme during the two months preceding the July 31 setting of the exchange rate.³⁰⁷ These represented the costs of accompanying, as it were, the pound to its return to gold, which arguably reduced Hungary's ability to export in contrast to other regional economies, like the Austrian and the Czechoslovak, whose currencies were based on the dollar.³⁰⁸

An internal memorandum of the Bank of England speculated on the unforeseeable consequences to the Hungarian economy of the pound's return to the gold standard by reference to the relative price levels in Britain and the United States:

What will happen if sterling gradually appreciates and eventually becomes equal to £1 gold?

If such appreciation is due to a rise in American price, while English prices remain steady Hungary will presumably have no difficulty in keeping the exchange pegged at its present figure.³⁰⁹

If, however, the return to the gold standard were due to a fall in prices in England, then unless a similar fall in prices was in operation in Hungary a demand for sterling would be set up in Hungary such as would make it difficult to maintain the exchange at its present figure.³¹⁰

But the burden sharing did not stop there. Britain returned to the gold standard at pre-war parity on 29 April 1925. This took place amidst well-known controversies. In January 1925, Winston Churchill, the Chancellor

of the Exchequer, still battled with doubts whether 'in trying to establish the gold standard we shall not be favouring American interests [...] relieving them of the consequences of their selfish and extortionate policy?'³¹¹ Churchill later explained why he had waived his misgivings about reaccession to gold: 'If we had not taken this action, the whole of the rest of the British Empire would have taken it without us, and it would have come to a gold standard, not on the basis of the pound sterling, but a gold standard of the dollar.'³¹² Churchill's diffidence was soon vindicated, and the Bank of England's partners in Hungary followed the events on the world's commodity markets with anxiety. Tabakovits (director of banking and exchange) told the Hungarian directors:

[E]xperts attribute [the threat of miners' strikes in Britain] to the early return to the gold standard, as a result of which the exchange rate of the pound expressed in dollars has risen by 10 per cent without any corresponding increase in the internal purchasing value of the pound. As a consequence, British coal is losing the competition with foreign, especially German, coal.³¹³

The search began for remedial measures. In September, Popovics declared:

[A]s the British pound has reached parity with gold, and as, for the present, it fluctuates between gold points and the Hungarian korona has been stabilised against the British pound at an as yet unchanging rate, a situation may arise, by keeping the exchange rate constant, that as a result of the possible fluctuations between the two gold points certain inconveniences may be experienced in our foreign trade.³¹⁴

The Bank of England recognised the disadvantages to Hungarian trade, and agreed to relieve the Hungarian bank of some of the harsher conditions imposed. The supplementary agreement allowed

the National Bank of Hungary full discretion regarding the precise rate at which Hungarian currency is to be stabilized on sterling from day to day, provided only that fluctuations in the National Bank of

Hungary's rate for sterling shall not be wider than the possible fluctuations of sterling between the gold import and export points.³¹⁵

While appreciating the financial and fiscal success of the British-led reconstruction programme in Hungary, the question also needs to be asked whether Norman's loan operation in Hungary succeeded as a means of adjusting the Hungarian economy to the international economic system. Stabilisation plans, such as those drawn up by Niemeyer, Strakosch and Norman went beyond framing a budget for a foreign country, the experts set out to purge parts of the European system of inflation, and worked towards the general stability of post-war Europe. In doing so, while professing their internationalism, they also endeavoured to serve British interests. At the same time, one is struck by the discrepancy between the positive short-term accomplishment of 'sound money' and the lack of progress achieved in the region's economy. In his final report, Jeremiah Smith emphasised the attainment of institutional brakes on uncontrolled increases in both incomes and expenditures rather than any improvement in the economic situation of Hungary.³¹⁶ The balance sheet of the utilisation of the international loan produced a surprising picture. Only 25 per cent of the money borrowed for the purpose of stabilisation was eventually spent on meeting arrears or current deficits of the budget. Such an amount, as Sir Robert Kindersley of Lazard Brothers had once suggested to Norman, could even have been raised by Hungary from domestic resources. The greater part of the loan was spent on the due amortisation instalments of old debts, improvements in the state bureaucracy, and various non-productive building projects, such as an expensive marine biological research centre on the shores of Lake Balaton. The loan turned out to be largely 'political' in the sense that it bolstered the internal and external image of the Hungarian régime. Popovics himself admitted that improvement on the 'economic side of the reconstruction programme [...] is left, so to speak, to be achieved as an automatic result of stabilisation.'³¹⁷ Instead of releasing Hungary from the necessity of Western assistance, the loan period reinforced the 'loan culture.' Between 1926 and 1929, thirty-eight long-term private loans were raised for various projects in Hungary, which includ-

ed the municipal loans of forty-eight provincial towns and cities.³¹⁸ As Alice Teichova put it, '[f]or the successor states to receive [an] influx of loans their currencies had to be stabilized.'³¹⁹ The Commissioner-General's last report did not hide the stark figures that characterised the Hungarian economy. Ironically, the only sources of his optimism were the constraints surrounding Hungary's financial administration, which could not produce a budget deficit, because they could not have found the source to finance it. Another state loan was out of the question; the Reparation Commission would not have released the liens reserved for reparation payments once more, another inflationary spree was prevented by the fact that the issuing of bank notes had become the privilege of the national bank, and any drastic increase in direct taxation would have been politically impossible.³²⁰ Irrespective of the economic stalemate, the financial experts of the League of Nations judged the

recuperative effect of monetary stabilization [in Austria and Hungary], so much greater than had previously been expected, [that it] was of great value to the Dawes Committee in 1924 in fixing payments by Germany which the reparation creditors could accept as satisfactory and the financial experts as practicable...³²¹

2.4.2 Upon Decontrol

Following the end of the intensive relationship between the Bank of England and the National Bank of Hungary, the Hungarian central bank, while honouring Norman's 'epitome' by charging 'no brokerage or commission to Central Banks,' in spite of sterling's return to gold, discontinued the use of sterling as 'kernel currency' when quoting the exchange rate of the Hungarian korona. The National Bank of Hungary became 'unlimited buyers of Hungarian Crowns at a rate which will at the outset be fixed weekly in terms of United States Dollars.'³²² On receipt of this message, the Bank of England at once advised the Anglo-Austrian Bank that the arrangement under which the Bank of England had undertaken to stabilise the Hungarian exchange at 346,000 crowns to the pound could be regarded as terminated and sent a telegram to Budapest asking whether the Hungarian Bank would still like the Bank of England

to act as their '[a]gent in making unlimited purchase of crowns at sterling equivalent' of the new rate quoted, but Budapest declined the offer, not wishing the Bank of England 'to take any further steps to protect the Hungarian exchange in London.'³²³

Complete decontrol only came on 30 June 1926. On the basis of two complete fiscal years, the Financial Committee of the League of Nations declared the financial situation of Hungary to be healthy and stable. On that account, on 10 June 1926, the Committee terminated the office of the Commissioner-General with effect from 30 June, and released Hungary from its obligations imposed on it under the control régime.³²⁴ The National Bank of Hungary reduced its discount rate from 12.5 per cent to 7 per cent,³²⁵ and the preparations for the issue on 1 January 1927 of the revalorised new currency, the pengő, an old Hungarian word for florin, were well in advance. 'Beg you to accept congratulations,' Norman wrote to Popovics,

on League resolution to abolish control. Understand that apart from certain provisions regarding Loan decontrol is complete which must be most satisfactory to you. Allow me to convey to you our best wishes for future prosperity of your country and of National Bank and to assure you of our desire to co-operate with you at all times.³²⁶

Jeremiah Smith and the British adviser, Siepmann, whose mandate was also terminated, were received by the Regent on the occasion of their departure.³²⁷ Royall Tyler, Smith's deputy, the French René Charron, and another member of the League control team, called Licen, remained in Budapest. Their task was to continue to supervise the management of the Hungarian budget, albeit with significantly reduced powers, as representatives of the Trustees of the creditors of the League loan. These Trustees were Sir Henry Strakosch, Carel Eliza ter Meulen and Giuseppe Bianchini of the Financial Committee of the League. Siepmann also remained in close touch with Hungarian developments as adviser to the governors of the Bank of England, with special responsibility for Central Europe.

The residual control of Hungary's finances by the British Treasury and the Bank of England through their dominating influence in the

Financial Committee in the League, continued well into the late 1920s. A substantial part of the League loan had still been unused by Hungary when control came to an end. These 82 million gold crowns of the so-called loan reliquat were released for the Hungarian budget by the League's Council in instalments upon specific applications submitted by the Hungarian government.³²⁸ Sir William Goode remained an avid patron of the Hungarian financial administration until Hungary's entry into the Second World War.³²⁹

Given that the main objective of all monetary overhauls in the twenties was an early return to, and stable maintenance of, the gold standard, it is not surprising that an inquiry into the long-term economic results of British-led stabilisation projects shows that they turned out to be ultimately unsatisfactory both in reference to the British economy as well as the economies whose currencies were stabilised against the pound or the dollar. In spite of their ability to trade in the revalorised and gold based korona and later the pengő, Hungarian industry, which was dominated by food processing, was in a state of almost uninterrupted crisis throughout the 1920s. Such failure in the face of the tremendous effort to restore the economic well-being of Hungary was partly due to the politically motivated tariff barriers within Central Europe, increasing agrarian protectionism in Europe as a whole, the relative efficiency of overseas agricultural producers, but also to the narrow conditions under which the Hungarian economy in particular was reintegrated into the new international economic system under the stabilisation plan. The dual aims of restoring London and sterling as the centre of the world economy and of creating an economic commonwealth in the politically fragmented lands of Central Europe and the Balkans proved to be an unrealistically tall order.

NOTES

- 1 The main published biographical sources on Norman are Sir Henry Clay, *Lord Norman* (London: Macmillan, 1957); Andrew Boyle, *Montagu Norman* (London: Cassell, 1967); Lester V. Chandler, *Benjamin Strong, Central Banker* (Washington, D.C.: The Brookings Institution, 1958); Priscilla Norman, *...in the Way of Understanding, Part of a Life, Lantern Slides in a Rough Time Sequence* (Godalming: Foxbury Press, 1982); R. S. Sayers, *The Bank of England 1891–1944* (Cambridge:

- Cambridge University Press, 1976); Paul Einzig, *Montagu Norman. A Study in Financial Statesmanship* (London: Kegan Paul, Trench, Trubner & Co. Ltd, 1932); John Gordon Hargrave, *Professor Skinner, alias Montagu Norman* (London: Wells Gardner, Darton & Co., Ltd, 1939); Harold James, Håkan Lindgren, Alice Teichova, eds. *The Role of Banks in the Interwar Economy* (Cambridge: Cambridge University Press; Paris: Editions de la Maison des Sciences de l'Homme, 1991).
- 2 'There is a curious and complete absence of politicians in the family record; and there was very little direct association with industry.' Clay, *Lord Norman*, p. 11.
 - 3 'Boyle, *Montagu Norman* (1967), pp. 139; György Péteri, *Revolutionary Twenties. Essays on International Monetary and Financial Relations After World War I*, no. 9, (Trondheim Studies in History, University of Trondheim, 1995): pp. 151–58.
 - 4 Clay, *Lord Norman*, pp. 120–28.
 - 5 A. C. Pigou, *Aspects of British Economic History 1918–1925* (London: Macmillan and Co. Ltd, 1947), p. 139.
 - 6 The report, published in November 1926, was titled *Factors in Industrial and Commercial Efficiency* (Blanche E. C. Dugdale, *Arthur James Balfour, Years 1906–1930*, [London: Hutchinson & Co, 1936], p. 376.) Under the Overseas Trade (Credits and Insurance) Act 1920 the Board of Trade could make advances, up to an amount outstanding at any time of £26 millions, in respect of goods wholly or partly produced or manufactured in the United Kingdom and exported to central or South-Eastern Europe. As amended in 1921, the act allowed the guaranteeing of bills drawn by traders in respect of exports. (Pigou, *Aspects of...*, pp. 139–140.)
 - 7 The 'old fashioned' aspects of Norman's philosophy, including his belief in the efficacy of the pre-war system, were shared by the vast majority of his generation of financiers, including those in the Treasury. As Nona Newman wrote in her dissertation: 'The main strand of thought identifiable [among Treasury officials] in our period is their great concern with orthodox values, and the importance of historical precedent.' (Nona M. Newman, 'The Role of the Treasury in the Formation of British Economic Policy', 1918–1925, PhD, Durham University, 1972, p. 343.)
 - 8 Norman was not alone with his distrust of politics and politicians. This was the time when J. M. Keynes, by no means an associate of Norman, who distrusted academics, first formulated his thoughts on this subject which would later crystallise into his General Theory: 'Even if economists and technicians knew the secret remedy, they could not apply it until they had persuaded the politicians; and the politicians, who have ears but no eyes, will not attend to the persuasion until it reverberates back to them as an echo from the great public.' (John Maynard Keynes, 'An Introduction', *Reconstruction in Europe*, General Editor, J. M. Keynes, Twelve Special numbers of *The Manchester Guardian Commercial*, Section II, [18 May 1922], p. 66.)
 - 9 W. M. Scammell, 'The Working of the Gold Standard', *Yorkshire Bulletin of Economic and Social Research*, vol XVII (1965), p. 33, quoted in Derek H. Aldcroft, *From Versailles to Wall Street 1919–1929* (London: Allen Lane, 1977), p. 165.

- 10 Émile Moreau, *Souvenirs d'un Gouverneur de la Banque de France* (Paris: M. T. Genin, 1954), p. 137, as quoted in Andrew Boyle, *Montagu Norman*, p. 205. It is ironic that some of the most insightful comments on Norman's system came from Moreau, the Governor of the Banque de France, Norman's greatest adversary.
- 11 Sir Ralph George Hawtrey (1879–1975). Moved to the Treasury from the Admiralty. Director of Financial Enquiries at the Treasury, 1919–1947. A constructive critic of Keynes. His explanation of hyper-inflation on the Continent, and his proposal for stabilisation at existing rates of exchange influenced the measures adopted for reconstruction loans. His close alliance with Norman weakened after 1925, when he differed from the governor on the method of adopting the gold standard.
- 12 G. Hawtrey, *Trade and Credit* (London: Longmans, Green and Co, 1928), pp. 4–18.
- 13 The twelve-point 'Epitome,' containing such provisions as 'A Central Bank should not compete with other Banks for general business. [...] A Central Bank should be independent but should do all its own Government's business – directly or indirectly – including Gold and Currency,' and 'A Central Bank should be the Banker of all other Banks in its country and should assist them to develop its business and economic resources,' was contained in two letters sent by Norman to W. H. Clegg, the Governor of the Bank of South Africa, 28 January and 1 April 1921, BoE OV37/20. The full version is published in Philip L. Cottrell, ed, *Rebuilding the Financial System in Central and Eastern Europe, 1918–1994* (Aldershot: Scolar Press, 1997), p. 63.
- 14 The disagreements between the Bank of England and its French counterpart affected German monetary reconstruction, later interfered with Norman's plans for Poland, and made it impossible for him to take the leading role in the financial overhaul of Romania.
- 15 T 172/1157.
- 16 Hemery, *The Emergence of Treasury Influence*, p. 2.
- 17 Boyle, *Montagu Norman*, p. 197, quoting Norman's personal letters.
- 18 Pierre Jay, chairman of the Board of Directors of the Federal Reserve Bank of New York, one of the three U.S. government-appointed directors of the Federal Reserve Bank, represented the supervisory authorities of the Federal Reserve System, as distinct from the operating side; a Federal Reserve agent. (Benjamin Strong to Montagu Norman, 20 June 1921, BoE G35/2.)
- 19 De Nederlandsche Bank, Archief G. Vissering, Internationale Besprekingen 2, Doss 16, quoted in Péteri, *Revolutionary Twenties*, p. 61.
- 20 Norman to Moll, 29 March 1924, 240206, Riksbankens Arkiv, Stockholm, quoted in Péteri, *Revolutionary Twenties*, p. 66.
- 21 R. G. Hawtrey, *Monetary Reconstruction*, 2nd ed, (London: Longmans, Green and Co. Ltd, 1926), p. 82.
- 22 Hawtrey's response, dated 26 January 1920, to a memorial written to the British Prime Minister by Robert H. Brand of Lazard Brothers, on behalf of 15 high-rank-

ing signatories, including Sir C. Addis, H. Asquith, Lord R. Cecil, J. R. Clynes, J. H. Thomas, F. C. Goodenough, Lord Inchcape, Sir Donald Maclean, Sir R. M. Kindersley, and Sir R. Vassar Smith, suggesting the convening of an international conference on European and world economic reconstruction and co-operative assistance. Although the conference never took place, the related correspondence has proved to be of lasting value. Underlining in the original. (T 172/1157) In 1922, Keynes expressed similar views when he suggested that '[t]hose countries of which the legal tender money has a gold value depreciated by more than 20 per cent below its value in 1914 are advised not to attempt a restoration of their currencies to the pre-war gold value.' (J. M. Keynes, 'The Stabilisation of the European Exchanges, A Suggestion for the Genoa Conference.' *The Manchester Guardian Commercial* 4 [6 April 1922]: p. 461.)

- 23 Julia Namier, *Lewis Namier, A Biography*, (London: Oxford University Press, 1971), p. 163.
- 24 Reading to Beveridge, 3.1.19, J. M. Keynes Papers T/18, quoted in Hemery, 'The Emergence of Treasury Influence...' p. 30.
- 25 John Swanwick Bradbury, first Baron Bradbury (1872–1950). The British government's chief financial adviser during the First World War. Devised new, security-type, constructions which allowed banking and trade to continue in spite of the severe disruptions to commerce, and provided new issue of currency notes. Joint Permanent Secretary of the Treasury, 1913–1919. Delegate at the Reparation Commission, 1919–25, chairman of the Food Council, 1925–29.
- 26 Sir Basil Phillott Blackett (1882–1935). Entered the Treasury in 1904. The Treasury's representative in Washington, 1917–1919. Controller of finance at the Treasury, 1919–22. During the same period, delegate to the Financial Committee of the League of Nations. Finance Member of the Viceroy's Council in India, where he introduced major reforms, 1922–28. Director of the Bank of England, 1929–35.
- 27 6 March 1919, T1/12445/55185.
- 28 The British Treasury repaid their tranche of the loan, £3.2 million in August 1920, this having been regarded as part of the original £12.5 million allocated by the Treasury to European relief. (Hemery, 'The Emergence of Treasury Influence', p. 370, quoting T160/7/220/Part I.).
- 29 'Interim Report by the Inter-Allied Commission on Relief of German Austria,' 17 January 1919, Lloyd George Papers, House of Lords Record Office (hereafter: L.G.), F/197/5.
- 30 British Consul General in Budapest in 1909–11, later Head of the Northern Europe Section of the PID, an advocate of a strong Poland after the war. See further in section (III) 5.1.
- 31 Memorandum by Lord Robert Cecil on a conversation with Beveridge before the submission of the latter's report, 16 January 1919, L.G. F/49/3/1.

- 32 Alice Teichova and Philip Cottrell, eds. *International Business and Central Europe, 1918–39* (Leicester University Press, 1983), p. 312.
- 33 In May 1919, Sir Francis Oppenheimer paid a visit to Vienna as British Financial Commissioner and made recommendations for lenient reparation terms for Austria, asserting that unless the fundamental difference between the cases of Austria, 'which is neither politically nor economically the heir of the late Austrian Empire,' and Germany were recognised, 'the treaty will not secure peace, but beget war.' *DBFP*, I/VI, doc. 25, pp. 40–47.
- 34 Austria, Hungary and Czechoslovakia received \$210 million in relief loans, and paid \$63 million altogether for relief goods. (Teichova and Cottrell, *International Business...*, p. 312.)
- 35 Sir William Athelstane Meredith Goode (1875–1944). Born in Australia of an Irish family. Political journalist until 1915, when he organised the British national committee for relief in Belgium. Liaison officer of the British Ministry of Food with the U.S. and Canadian food administrations. Appointed British director of relief in Europe, 1919, member of the Supreme Economic Council. President of the Austrian Section of the Reparation Commission, 1920–21. Semi-official adviser of the Hungarian government, 1922–1941. Adviser to the Polish government for six months in the latter half of 1925.
- 36 Sir Arthur Salter, first Baron Salter (1881–1975). Having served at the Transport Department of the Admiralty during the war, played a prominent part in organising the repatriation of demobilised forces and sending relief supplies to Europe. One of the secretaries of the Supreme Economic Council. Head of the Financial Committee of the League of Nations, June 1919–January 1920. General Secretary of the Reparation Commission, 1920–22. Returned to the Financial Committee, 1922–31. Played a key role in the stabilisation of the currencies of Austria, Hungary, Danzig, Estonia, Bulgaria, Greece and, in 1928, Portugal.
- 37 Lord Salter, *Memoirs of a Public Servant* (London: Faber and Faber, 1961), p. 178.
- 38 Norman to Strong, 9 and 21 June 1921, BoE G35/2.
- 39 Norman to Strong, 14 November 1921, BoE G35/2.
- 40 'Czecho-Slovak Loan,' memorandum by Frank H. Nixon (acting director of the Financial Committee of the League of Nations), August 1922, Salter Papers, 123, no. 5, in Péteri, *Revolutionary Twenties*, p. 68.
- 41 See for instance, Ferdynand Zweig, *Poland Between Two Wars, A Critical Study of Social and Economic Changes* (London: Secker & Warburg, 1944), p. 50.
- 42 Sir Henry Strakosch (1871–1943). Austrian-born, Viennese-educated, naturalised British subject, notable financier and businessman. Chairman of a company which developed some of the richest gold mines in South Africa. His efforts led to the establishment of the South African Reserve Bank, the first central bank in the British Empire outside the United Kingdom. Member of the Financial Committee of the League of Nations, 1920–37, its first chairman, 1920–21.

- 43 Sir Otto Ernst Niemeyer (1883–1971). Controller of finance at the Treasury, principal adviser to the chancellor of the Exchequer, 1922–27. Member of the Financial Committee of the League of Nations, 1922–37. Adviser at the Bank of England, 1927–37, director, 1938–52. Appointed to the Council of Foreign Bondholders, and the Bank for International Settlements.
- 44 Anglo-French rivalry to disburse an advance on the loan (described in Orde, *British Policy...*, p. 131, and Clay, *Lord Norman*, p. 181.) prompted Norman to write to Strong: ‘The quarrels in Austria between the protagonists of the French on the one side and of the British on the other have been very unfortunate and of course all spring from the fundamentally different standpoints of the two Countries. Our basis is economic, the French basis is political, and nowhere is the distinction more clearly seen than in Austria.’ (Clay, *Lord Norman*, pp. 184–85.)
- 45 Clay, *Lord Norman*, p. 182.
- 46 In a letter written to Norman, dated 28 December 1923, Julius Meinl, the great Viennese coffee and food merchant, claimed that ‘it was me, who originally hitting upon the idea of reconstruction credits, worked out an Austrian plan with the knowledge and approval of our Chancellor.’ (BoE OV33/70) However, there is no further reference to Meinl’s involvement in the subsequent organisation of the scheme.
- 47 Goode Papers, BoE OV33/60, Clay, *Lord Norman*, pp. 180–188.
- 48 Zimmermann was a former mayor of Rotterdam. Orde, *British Policy...*, pp. 141–42.
- 49 Trotter to Strong, 6 March 1923, in Clay, *Lord Norman*, p. 189.
- 50 Hemer, *The Emergence of Treasury Influence*, p. 368.
- 51 Norman to Strong, 9 April 1923, BoE G35/4.
- 52 League of Nations, *The Financial Reconstruction of Hungary*, p. 3, BoE, OV33/75; OV33/76.
- 53 Interestingly, the Financial Institute Centre (*Pénzüntézet Központ* or *Finanzzentrale*), a precursor to the central bank, decided to keep in circulation, at a reduced face value, some of the low denomination notes of the Soviet republic, as without those, the supply of money could not have been ensured. (Tallós György et al, eds. *A Magyar Nemzeti Bank története I., Az Osztrák Nemzeti Banktól a Magyar Nemzeti Bankig, 1816–1924* [The History of the National Bank of Hungary I, From the National Bank of Austria to the National Bank of Hungary, 1816–1924], Budapest, 1993, (hereafter: Tallós, *A Magyar Nemzeti Bank*), p. 427.
- 54 Athelstan-Johnson, to Phipps, 26 July 1920, FO 371/4870/C2726/2726/21.
- 55 Athelstan-Johnson to Curzon, 23 November 1920, FO 371/4870/C12506/-2726/21.
- 56 Crowe’s answer 3 December 1920.
- 57 Athelstan-Johnson to Eric Phipps [Assistant Secretary at the Foreign Office], 25 September 1920, FO 371/4878/C7972/728/21. The ratification of the peace treaty took place on 13 November 1920.

- 58 *The Financial Times*, 18 December 1920.
- 59 Although there is no evidence that Norman entertained a special interest in Hungary, there is a curious note among his papers. In a postscript to a letter written to Sir John Bradbury, the chief British delegate to the Reparations Commission, dated 26 May 1923, Norman wrote: 'I wish we could have somebody's blood to atone for the way the Hungarians have been treated.' (Clay, *Lord Norman*, p. 148.)
- 60 Hegedűs had studied in Budapest, London and Oxford, and started his career in the pre-war Hungarian Ministry of Finance.
- 61 Lóránt Hegedűs, *Lesz-e béke?* [Will There Be Peace?], (Budapest, 1920), pp. 7, 13, 14, 45–56. One characteristic maxim by which Hegedűs was known to illustrate his firm belief in the central role of money in the economy was that 'money cannot lie.'
- 62 For further details see Piotr S. Wandycz, *France and Her Eastern Allies*, (Minneapolis: University of Minnesota Press, 1962); György Ránki, *Economy and Foreign Policy: The Struggle of the Great Powers for Hegemony in the Danube Valley, 1919–1939*; Boulder: East European Monographs no. CXLI, distributed by Columbia University Press, New York, 1983; Anne Orde, 'France and Hungary in 1920: Revisionism and Railways', *Journal of Contemporary History* 15, (1980); and section (I) 1.2. of this book.
- 63 Tallós, *A Magyar Nemzeti Bank*, p. 439.
- 64 Georges Soutou, 'L'imperialisme du pauvre: la politique économique de gouvernement français en Europe Centrale et Orientale de 1918 à 1929', *Relations Internationales*, vol 7, (1976): pp. 219–39. It is interesting to note that the Franco-British rivalry in 1920–21 to obtain guardianship over the financial reconstruction of Central and South-East European countries is the first recorded instance of a 'turf war' between central banks, which was soon followed by the contest between the Federal Reserve Bank of New York and the Bank of England to oversee the German and later the Polish monetary *Sanierung*.
- 65 Sándor Popovics (1862–1935), was a self-made man, who rose through the ranks of state administration since the turn of the century, relying on his own talent without special patrons. He became Minister of Finance in 1908. He held this post until 1912 when he was appointed Governor of the Austro-Hungarian Bank. He was president of the Note Issuing Institute, and later first President of the National Bank of Hungary, a respected financial expert both within and outside Hungary. (Tallós, *A Magyar Nemzeti Bank*, pp. 447–48; Lóránt Hegedűs, 'Popovics Sándor emlékezete' [The Memory of Sándor Popovics], (Budapest, 1940); FO 371/9914/C8423/8423/21.)
- 66 Tallós, *A Magyar Nemzeti Bank*, pp. 444–45.
- 67 In September 1921 Hegedűs travelled to Hamburg, where he negotiated with German and American bankers about raising a loan for Hungary, which would have covered the running costs of the state budget until the taxation of business

took over, but these negotiations ended in failure. (Tallós, *A Magyar Nemzeti Bank*, p. 443.)

- 68 Tibor Kállay had been a senior official at the Hungarian Ministry of Finance since 1911. It was under his tenure of office as minister that Hungary's finances were placed on a firm footing through prudent management at home, the renegotiation of Hungary's pre-war debts and of the reparations payments, the reform of direct taxation, and above all, the raising of a substantial foreign loan. In many ways, however, events did not proceed the way he wanted, and, in February 1924, before the package of bills enabling the administration to put into effect the financial rescue plan was debated in the Hungarian parliament, he resigned.
- 69 Balfour to MacDonald, 23 May 1924, FO 371/9914/C8423/8423/21.
- 70 On the occasion of that particular protest, the government's excessively liberal credit extension schemes were blamed, e.g. a 10 billion *korona* government credit for a home building project. (Tallós, *A Magyar Nemzeti Bank*, pp. 458–59.)
- 71 Balfour to MacDonald, 23 May 1924, FO 371/9914/C8423/8423/21.
- 72 Hedry to Bánffy, 21 February 1922, Hungarian National Archives, OL K69–1922–110.
- 73 Hohler to Curzon, 8 September 1922, FO 371/7637/C13241/13241/12.
- 74 Michael Seymour Spencer-Smith (1881–1928). On the board of the Anglo-Austrian Bank from 1920. The youngest director of the Bank of England from the same date. Closely involved in the Austrian reconstruction scheme, as well as in setting up the Anglo-Czechoslovak Bank in 1921–22, where he was also a board member. Also see sections (II) 4.3 and (II) 4.4.
- 75 Hohler to Curzon, 8 September 1922, FO 371/7637/C13241/13241/12. Minute (probably by Harold Nicolson), 20 September 1922. Copy to Treasury.
- 76 As early as August 1920, Athelstan-Johnson forwarded a message from Budapest about the Hungarian Credit Bank informing representatives of Barclay's Bank that they were about to be paid the sum of £100,000 by the Danube River Syndicate but that the Credit Bank was afraid to place this sum in Barclay's Bank fearing that under the Peace Treaty it would be seized for pre-war debts. Asked to shed light on the details, the legal section of the D.O.T. replied, that Barclay's success depended on whether the debts in question technically originated before or after the war. (FO 371/4871/C6124/4122/21.)
- 77 Born in 1868, Teleszky entered state service in 1889 in the Ministry of Finance. In 1909, he became a State Secretary, and was Minister of Finance in Count István Tisza's cabinet from 1912 to 1917. After the war, a Financial Council was created as an advisory body to support the Minister of Finance, consisting of ex-Finance Ministers and other financiers. Teleszky was appointed president of this body. Teleszky was described in John Balfour's report to the Foreign Office as someone whose 'opinion always prevailed, and he is, therefore, held morally responsible for the consequences of the financial policy hitherto pursued. He is exceedingly

- clever and learned, but is described as a miser, and obstinate. He is one of the most unpopular persons in Hungary.' (FO 371/9914/C8423/8423/21)
- 78 György Péteri, "Tying Up a Loose End", *British Economic Strategy in 1924: The Hungarian Stabilization.* *Acta Historica Academiae Scientiarum Hungaricae* 30 (3–4), (1984): p. 323, quoting 'A nagy (külföldi) kölcsönnek Teleszky-féle tervezete' [Teleszky's scheme for the great (foreign) loan], December 1922, the Semi-official Papers of Tibor Kállay, Hungarian National Archives, Kállay, K275, 9. cs. VIII/4.
- 79 Carole Fink, *The Genoa Conference, European Diplomacy, 1921–1922*, Syracuse, 1984, (1993), pp. 245–252.
- 80 Péteri, *Tying Up...*, p. 324.
- 81 Péteri, *Tying Up...*, quoting Hungarian National Archives, Kállay, K275, 6. cs. V/7.
- 82 Péteri, *Tying Up...*, p. 328, quoting *Magyar Nemzetgazda* [Hungarian Economist]. (7 January 1922), p. 4.
- 83 Hohler to Lampson, 27 June 1923, 'Very Secret', FO 371/8864/C11544/942/21. Finding the balancing act too difficult, Kállay resigned in early 1924. Before his resignation, he informed the Hungarian public of the impending loan project, and added that the plan would succeed: 'only if national and international political conditions remain undisturbed [...]' (Quoted by Hohler, then chargé d'affaires in Budapest, in a letter to the D.O.T., FO 371/8861/C942/942/21.)
- 84 It is not clear when Goode first arrived in Hungary to take up this new position. Lipót Baranyai's condensed account of Goode's papers suggests December 1922 or January 1923. György Péteri considers that the date may not be established, but reports that the first record of Goode's presence in Budapest dates from January 1923. Sir Colville Barclay also stated that Goode had arrived in Hungary in January 1923 (FO 371/10778/C4508/4508/21).
- 85 It is known that Sir William's honorarium for his services in Hungary was £150 per month between 1928 and 1930. (Hungarian National Archives, OL K 276, 1. cs. 95/1928.)
- 86 It should be noted, however, that Goode's reputation in London gradually waned by the latter half of the 1920s. His unclear status contrasted badly with his intense activity on behalf of Hungarian interests, and this became a source of irritation for both Norman in London and for Harry Siepmann in Budapest, who was officially employed by the National Bank of Hungary.
- 87 Goode Papers, BoE OV33/60, p. 13.
- 88 A term used to indicate the Hungarian perception that simply by ceding territory and property as a consequence of the territorial clauses of the peace treaty, Hungary also discharged reparation payments.
- 89 Goode Papers, BoE OV33/60, pp. 13–14.
- 90 Schöber was Director General of the Central Institute of Hungarian Banks, a for-

mer Under-Secretary at the Hungarian Ministry of Finance, later first Director General of the National Bank of Hungary.

- 91 Tallós, *A Magyar Nemzeti Bank*, p. 520, quoting Hungarian National Archives, 230328, OL K. 275. 8. cs.
- 92 It is probable that Norman only had an opportunity to consider Schóber's letter after returning from his long holiday at Nice from 23 March to 18 April 1923. (Norman's diary entries start from 19 April, BoE ADM 34/12.)
- 93 Schóber to Norman, 22 March 1923, BoE OV33/70.
- 94 Sir Otto Niemeyer.
- 95 Goode to Kállay, late March 1923, Hungarian National Archives, OL K 275, 8. cs, VII/1.
- 96 Goode Papers, BoE OV33/60, p. 11.
- 97 Balfour to Curzon, 2 February 1923, FO 371/8861/C2529/942/21.
- 98 S. Armitage-Smith, Principal Clerk at the Treasury in 1914 (T 199/44B), technical adviser in the Turkish settlement of the Finance Commission of the Treasury Delegation at the Paris Peace Conference (JMK Papers, PT/1, quoted in Hemery, 'The Emergence of Treasury Influence...', p. 151.), member of the Reparation Commission after the war.
- 99 Stanley Baldwin, Chancellor of the Exchequer, 25 October 1922–11 October 1923.
- 100 Niemeyer to Lampson, 16 March 1923, BoE OV33/70; FO 371/8861/C4996/-942/21.
- 101 Lampson to Niemeyer, 23 March 1923, FO 371/8861/C4996/942/21.
- 102 Lampson to Niemeyer 26 March 1923, FO 371/8861/C5694/942/21.
- 103 The Members of the League's Financial Committee were: Albert Janssen, the Belgian Minister of Finance; Giuseppe Bianchini, Italian banker, the President of the Federation of Italian Banks; Jean Parmentier, the Directeur du Mouvement Général des Fonds of the Ministry of Finance of France (often substituted by Comte André de Chalendar, a lesser official of the Ministry); Vilem Pospíšil, General Manager of the Prague Savings Bank, Vice-President, or Director, of the Banking Office Committee of the Czechoslovak Ministry of Finance; Sekiba of the Serbo-Croat-Slovene Ministry of Finance; Sir Otto Niemeyer; Sir Henry Strakosch; Sir Basil Blackett; Sir Arthur Salter; Carel Eliza ter Meulen, Dutch banker, a partner of Hope & Co. of Amsterdam; and Marcus Wallenberg, the President of the Swedish Bank Federation.
- 104 Niemeyer to Lampson, 28 March 1923, FO 371/8861/C5820/942/21.
- 105 Niemeyer to Phipps, 10 April 1923, FO 371/8861/C6413/942/21.
- 106 Orde, *British Policy...*, pp. 267–68.
- 107 FO 371/8861/C8287/942/21.
- 108 Also see Crewe to Curzon, 4 May 1923, in which Bethlen's speech is characterised as painting an unduly 'black picture' of Hungary's financial situation. (FO 371/8861/C8248/942/21)
- 109 FO 371/8861/C8248/942/21.

- 110 Norman to Bradbury, 28 April 1923, BoE OV33/70.
- 111 Diary entry, 4.30 p.m., 10 May 1923, BoE ADM 34/12.
- 112 Norman to Clegg, 26 May 1923, BoE G3/179.
- 113 Young (Belgrade) to Curzon, 2 May 1923, FO 371/8861/C7893/942/21, not retained in the PRO but referred to in FO 371/8861/C7783/942/21, Butler's, Cadogan's, Lampson's and Crowe's minutes 4 May 1923.
- 114 Crewe to Curzon, 4 May 1923, FO 371/8861/C8248/942/21.
- 115 Hohler to Curzon, 9 April 1923, FO 371/8861/C6790/942/21; FO 371/8861/-C6238/942/21.
- 116 See *DBFP*, I/XXIV, docs. 47 and 51, pp. 178–79 and 186–88.
- 117 Curzon to Crewe, 17 May 1923, Armitage-Smith's dispatch, 14 May, *DBFP*, I/XXIV, doc. 381, p. 657n.
- 118 *Ibid*, pp. 657–58.
- 119 Mussolini's government had dropped their earlier objections to the scheme and took the British side against the French, but were ready to support the Little Entente if the latter were willing to compromise.
- 120 Barclay to Chamberlain, 25 March 1925, FO 371/10778/C4508/4508/21.
- 121 Orde, *British Policy...*, p. 268; 'Record by Mr. Cadogan of a visit to the Foreign Office by Sir W. Goode and Mr. Niemeyer,' 24 May 1923, *DBFP*, I/XXIV, doc. 390, p. 666.
- 122 League of Nations, *Financial Reconstruction of Hungary*, BoE, OV33/76; Goode Papers, BoE OV33/60, p. 15. Subsequently, Curzon sent a critical note to the French Prime Minister, Raymond Poincaré, concerning the rule which allowed the French chairman of the Reparation Commission a casting vote. In a letter addressed to Poincaré and read out to Eric Phipps, the British Minister in Paris, Barthou declared 'that he had been careful never to make use of that casting vote [...] against the British and Italian representatives, although he had once done so in regard to Hungary.' (Phipps to Curzon, 18 August 1923, Sir Eric Phipps Papers, Churchill Archives, PHPP 1/1.) Nonetheless, Barthou proved to be popular in the long run with the British members of the Reparation Commission. In January 1928, S. Armitage-Smith told Phipps in Paris that he 'yearned for Barthou (who had become French Minister of Justice in July 1926) to come back to the Reparation Commission. [Armitage-Smith's] idea is that a strong French chairman is better for us than a weak one like Chapsal.' (Phipps to Orme Sargent, 17 January 1928, PHPP 2/7.)
- 123 Barclay to Chamberlain, 25 March 1925, FO 371/10778/C4508/4508/21.
- 124 Goode Papers, BoE OV33/60.
- 125 'Record by Mr. Cadogan of a visit to the Foreign Office by Sir W. Goode and Mr. Niemeyer,' 24 May 1923, *DBFP*, I/XXIV, doc. 390, p. 667.
- 126 *Ibid*, pp. 667–68.
- 127 This indicates that Niemeyer did not entirely reject, as Goode had feared, the

- concept of 'transferred properties,' earlier discussed in connection with a dispatch sent by Baron Korányi to Sir William. See note no. 88 in this chapter.
- 128 Reference to a note from the Serb-Croat-Slovene Minister in London, 16 May 1923, *DBFP*, I/XXIV, doc. 390, p. 668n.
- 129 Norman to Gaspard Farrer (merchant banker at Barings Brothers), 25 May 1923, BoE G3/179; OV33/70.
- 130 Goode Papers, BoE OV33/60, p.16.
- 131 Vilem Pospíšil was general manager of the Prague Savings Bank, Vice-President of the Banking Office of the Czechoslovak Ministry of Finance, and Czechoslovak representative on the Financial Committee of the League of Nations.
- 132 Norman to Farrer, 25 May 1923, BoE G3/179/224.
- 133 See section (II) 4.3 of this book.
- 134 On 7 June Norman received the copy of a letter sent from Prague to the Anglo-Austrian Bank, which elaborated on this connection. (BoE OV112/1) See further in section (II) 4.6.
- 135 Norman to Niemeyer, 7 June 1923, BoE OV112/1.
- 136 Barings Bank to Banking Office of the Czechoslovak Finance Ministry, 7 June 1923, BoE OV112/1, fol. 10; BoE OV33/70.
- 137 BoE OV112/1; BoE OV33/70.
- 138 Norman to Crowe, 27 June 1923, 'Private', BoE OV112/1; BoE OV33/70.
- 139 Crowe to Norman, 28 June 1923, BoE OV112/1; BoE OV33/70.
- 140 Barclay to Chamberlain, 25 March 1925, FO 371/10778/C4508/4508/21.
- 141 Cadogan to Norman, 4 July 1923, BoE OV112/1.
- 142 Norman to Cadogan, 6 July 1923, BoE OV112/1.
- 143 25 July 1923, *The Parliamentary Debates: Official Report (Hansard), Fifth Series, House of Lords* 54, col. 1354.
- 144 Cottrell, *Rebuilding the Financial System...*, p. 44.
- 145 BoE ADM 34/12.
- 146 Curzon to Clerk, 20 July 1923, *DBFP*, I/XXIV, doc. 484, pp. 776–77.
- 147 Goode Papers, BoE OV33/60, p.16.
- 148 BoE ADM 34/12.
- 149 *Loc. cit.*
- 150 BoE ADM 34/12.
- 151 Clerk to Cadogan, 5 September, Cadogan to Norman, 14 September 1923, BoE OV112/1. Emphasis by Norman.
- 152 Norman to Siepmann, 14 June 1924, BoE G3/180; OV33/71.
- 153 Norman to Young and Spencer-Smith, with copies to Niemeyer, W. D. Wilkinson of the Treasury, and Lord Revelstoke (Director of the Bank of England, 1898–1929), n.d. BoE OV112/1, fol. 16.
- 154 Another major item on the agenda of this conference was the proposed admittance of Poland and Greece to the Little Entente. The proposal was turned down as being premature at the instigation of Edvard Beneš and Momčilo Ninčić, the

- Yugoslav Foreign Minister. *DBFP*, I/XXIV, doc. 489, p. 781. On Czechoslovak-Polish relations, see section (II) 3.11.
- 155 Millington-Drake (British chargé d'affaires in Bucharest 16 July–2 September 1923) to Curzon, 30 July 1923, *DBFP*, I/XXIV, doc. 489, p. 781.
- 156 FO 371/10778/C4508/4508/21.
- 157 Clerk to Curzon, 13 August 1923, *DBFP*, I/XXIV, doc. 508, p. 806.
- 158 Nicolson to Norman, 29 August 1923, 'Very Confidential', BoE OV112/1.
- 159 Hungarian National Archives, OL. Küm. kab. 1924–1941 cs., quoted in Mária Ormos, *Az 1924. évi magyar államkölcsön megszerzése* [Raising the Hungarian State Loan of 1924], (Budapest, 1964), pp. 77–78.
- 160 Hungarian National Archives, OL. Küm. kab. 1924–1941. cs. pp. 31–33, in Ormos, *Az 1924 évi...*, p. 80.
- 161 Goode to Niemeyer, 21 September 1923, Goode Papers, BoE OV33/60, p.17.
- 162 Barclay to Chamberlain, 25 March 1925, FO 371/10778/C4508/4508/21.
- 163 *The Daily Telegraph*, 10 October 1923.
- 164 A smaller sum was due from the successor states on account of the Austro-Hungarian pre-war debt, the amortisation of which could also be suspended. *The Morning Post*, 19 December 1923. Also see section (II) 4.5, the debt is quoted in gold francs, whose pre-war parity to the gold crown had been 105 centimes to the crown.
- 165 Quoted in Ormos, *Az 1924. évi...*, p. 81.
- 166 Hungarian National Archives, OL, The Papers of Miklós Kozma, bundle no. 1, 2nd set of data, 1920 to May 1924, pp. 131–40, in Ormos, *Az 1924. évi...*, pp. 81–82.
- 167 Annual Report on Hungary for 1924, FO 371/10778/C4508/4508/21. At this delicate stage, Norman was concerned that nothing should upset the negotiations. When Niemeyer informed Norman, relying on Foreign Office sources, that a 'Land Mortgage Company [...] was recently formed in Budapest under the auspices of the British Hungarian Bank Ltd. to develop [sic] the large agricultural properties of Hungarian land-owners,' (Niemeyer to Norman, n.d., BoE OV33/70) Norman requested the Treasury not to have any official connection with this project before a stabilisation loan was raised for Hungary. (Norman to Niemeyer, 23 October 1923, BoE G3/179).
- 168 Cottrell, *Rebuilding the Financial System...*, p. 47.
- 169 Norman noted in his diary in connection with Kindersley's idea: 'I say it may not be against our Rules but it is unnecessary & wrong in principle being internal & not External.' (Diary entry 9 November 1923, BoE ADM 34/12)
- 170 Diary entry by Norman, 20 November 1924, BoE ADM 34/12.
- 171 Diary entries, 22, 26, 29 November 1923, BoE ADM 34/12.
- 172 Barclay to Chamberlain, 25 March 1925, FO 371/10778/C4508/4508/21.
- 173 Diary entry 29 November 1923, BoE ADM 34/12.
- 174 Barclay to Chamberlain, 25 March 1925, FO 371/10778/C4508/4508/21.
- 175 Foreign Office Memorandum, 15 January 1924, FO 371/9676/C909/909/12.

- Howard Smith minuted that 'the position [had to be put] very plainly before M. Benes.'
- 176 Barclay to Chamberlain, 25 March 1925, FO 371/10778/C4580/4508/21.
- 177 *Loc. cit.*
- 178 Michel Mitzakis, *Le relèvement financier de la Hongrie et la Société des Nations* (Paris: Les Presses Universitaires de France, 1926), p. 234.
- 179 FO 371/10778/C4508/4508/21.
- 180 League of Nations, *Financial Reconstruction of Hungary, Agreements drawn up by the League of nations and signed at Geneva on 14 March 1924*, p. 27, BoE OV33/76; Michel Mitzakis, *Le relèvement financier...*, pp. 241–54.
- 181 Prague communiqué, *The Times*, 18 March 1924, see more in section (II) 4.5.
- 182 Hohler to MacDonald 16 February 1924, MacDonald to Hohler 3 March 1924, FO 371/9905/C2915/37/21.
- 183 Goode Papers, BoE OV33/60, p. 18.
- 184 Goode Papers, *loc. cit.* Michel Mitzakis, *Le relèvement financier...*, Chapter VI: 'Quelques remarques sur l'œuvre comparée de la Société des Nations en Autriche et en Hongrie', pp. 319–40.
- 185 This construction, called the 'transfer system' was utilised a little later in 1924 by the Dawes Committee as the basis of the solution for the persistent problem of German reparations.
- 186 The Committee of Treasury was a body of the nine most influential directors of the Bank, and except that the governor and the Deputy Governor were *ex-officio* members, it was elected by secret ballot of the whole Court. (Sir Ernest Harvey's [Comptroller, Chief Cashier and later Director of the Bank] statement to the Macmillan Committee in 1929, Clay, *Lord Norman*, pp. 3–4n.)
- 187 Minutes of the Committee of Treasury, 9 January 1924, BoE G14/108.
- 188 Diary entry, 11 January 1924, BoE ADM 34/13.
- 189 Cottrell, *Rebuilding the Financial System...*, p. 50. When Bethlen was granted a royal audience at the time of his visit, R. W. Seton-Watson wrote to Allen Leeper at the Foreign Office: 'I must protest against the disastrous step of allowing Count Bethlen to be received by the King. [...] Quite frankly, I interpret it as part of a general attempt to "rush" everyone into a Hungarian loan policy.' (Seton-Watson to Leeper, 23 January 1924, R. W. Seton-Watson Papers, The Archives of the School of Slavonic and East European Studies, General Correspondence, Box 14.)
- 190 Memorandum, 23 January 1924, BoE OV33/70; G14/108.
- 191 Norman to Strong, 24 January 1924, BoE OV33/70.
- 192 Members of the delegation which arrived in Budapest on 6 March 1924, were Sir Henry Strakosch, Giuseppe Bianchini, President of the United Bank of Italy, C. E. ter Meulen of Hope & Co. Amsterdam; Marcus Wallenberg of Enskilda Bank, Stockholm; Vilem Pospíšil, the Director of the Banking Office of the Czechoslovak Ministry of Finance and Czechoslovak representative on the Financial Committee of the League of Nations; Dr. Joost Adriaan van Hamel, head of the

Legal Department of the League of Nations; Dr. Per Jacobson, lecturer in political economy at the University of Stockholm; Pierre Denis, Assistant Secretary to the Reparation Commission; A. Elliot Felkin, member of the Financial Committee of the League of Nations; E. H. Vigier, member of the Political Section of the League of Nations. (*Pester Lloyd*, 15 March 1924; Hohler to MacDonald, 10 March 1924, *DBFP*, I/XXVI, doc. 86, pp. 140–41.)

- 193 Norman had sounded a whole range of senior European officials from neutral countries, and had exchanged a series of letters on the subject with Benjamin Strong whom he had asked to help. It was thought that any American tranche of a future loan could best be placed on the U.S. money market if the controller of the loan in Hungary would be an American. Among those who turned down the offer were Baron Theodor Adelsward, the President of the Council of the Inter-Parliamentary Union and William P. G. Harding, an ex-governor of the Federal Reserve Board in Washington and Governor of the Boston Reserve Bank. A briefly entertained idea would have involved Alfred Zimmermann as joint commissioner in both Austria and Hungary. (BoE OV31/6; OV33/70; *DBFP*, I/XXVI, doc. 127, p. 190n; Ormos, *Az 1924. évi...*, pp. 115–16.)
- 194 Barclay to Chamberlain, 25 March 1925, FO 371/10778/C4508/4508/21. The delay was due to the initial reluctance of the Hungarian government to accept his nomination.
- 195 Norman to Blackett, 21 May 1924, BoE G3/180.
- 196 Barclay to Chamberlain, 25 March 1925, FO 371/10778/C4508/4508/21.
- 197 Orde, *British Policy...*, p. 272.
- 198 *DBFP*, I/XXVI, doc. 127, p. 189.
- 199 Barclay to Chamberlain, 25 March 1925, FO 371/10778/C4508/4508/21.
- 200 Memorandum, 26 March 1924, BoE OV33/70.
- 201 Norman to Vissering, 12 April 1924, BoE OV33/71.
- 202 John M. Atkin., 'Official Regulation of British Overseas Investment, 1914–1931', *Economic History Review*, (August 1970): XXIII/2.
- 203 Norman to Strong, 13 November 1923, BoE OV31/6.
- 204 Niemeyer to Norman, 26 April 1924, BoE OV33/71, my italics.
- 205 Snowden to Norman, 7 May 1924, BoE G14/108; OV33/71.
- 206 Minutes of the Committee of Treasury, 7 May 1924, BoE G14/108.
- 207 BoE OV33/71.
- 208 Diary entry, 17 January 1924, BoE ADM 34/13.
- 209 Diary entry, 6 June 1924, BoE ADM 34/13.
- 210 Norman to Niemeyer, 8 May 1924, BoE OV33/71.
- 211 BoE OV33/71.
- 212 Norman to Vissering, 12 May 1924, BoE G3/180. Underlining by Norman.
- 213 Diary entry 14 May 1924, BoE ADM 34/13.
- 214 Peter Bark [Pyotr Lvovovich Bark] (1869–1937). The last Finance Minister of imperial Russia, 1914–1917. As one of its directors, reorganised the Anglo-Austrian

- Bank as an English bank. Persuaded the Bank of England to accept deferred stock instead of its prior outstanding pre-war claims and to take the unusual step of putting up new money. Became a British subject and was knighted in 1935. Bark was Norman's most trusted expert on the finances of Central Europe. (*Politicheskie deyateli Rossii, 1917, Biograficheskii slovar* [The Politicians of Russia, 1917, A Biographical Dictionary], Moscow, 1993.)
- 215 Péteri, *Revolutionary Twenties*, p. 156.
- 216 Bark to Norman, 23 May 1924, BoE OV33/71.
- 217 Bark to Norman, 24 May 1924, BoE OV33/71.
- 218 Orde, *British Policy...*, p. 273.
- 219 Robineau to Norman, 23 May 1924, BoE OV33/71. This was later confirmed despite Norman's request for French participation. Norman to Robineau, 19 June 1924, BoE G3/180.
- 220 Diary entry, 19 May 1924, discussion with Anthony de Rothschild, ADM 34/13.
- 221 Diary entries, 15 January and 19 May 1924, BoE ADM 34/13.
- 222 Bark to Norman, 23 May 1924, BoE OV33/71.
- 223 Bark to Norman, 27 May 1924, BoE OV33/71.
- 224 Norman to Bark, 27 May 1924, BoE OV33/71.
- 225 Diary entries 26, 27, 28 May 1924, BoE ADM 34/13.
- 226 Minutes of the Committee of Treasury, 28 May 1924, BoE G14/108.
- 227 Snowden to Norman, 29 May 1924, BoE OV33/71.
- 228 Iván T. Berend, György Ránki, *Magyarország gazdasága az első világháború után 1919–1929* [The Economy of Hungary After the First World War], (Budapest, 1966), p. 149; Péteri, *Tying Up a Loose End...*, pp. 321–37.
- 229 Gold crowns, the equivalent of £12,000,000.
- 230 Sándor Popovics was president of the Note Issuing Institute, and president designate of the National Bank of Hungary.
- 231 Strakosch to Smith, 30 May 1924, BoE OV33/71.
- 232 Strakosch to Smith/2, 30 May 1924, BoE OV33/71.
- 233 R. S. Sayers, *The Bank of England 1891–1944* (Cambridge, 1976), p. 67n.
- 234 Newman to Norman, 3 June 1924, Committee of Treasury files, Hungary, vol 1, 1924–1967, BoE G14/108.
- 235 Minutes of the Committee of Treasury, 4 June 1924, BoE G8/55.
- 236 The stabilisation of the Austrian krone was first based on the Swiss franc, but because of the fluctuations in the exchange rate of the Swiss franc, it was decided that gold, i.e. in the currency terms of that time, the American dollar, should be the basis of stabilisation. (League of Nations, *The Financial Reconstruction of Austria, General Survey and Principal Documents*, Geneva, 1926, pp. 90–91.)
- 237 On 1 December 1922, Strong wrote to Norman that he had read an article 'written by your friend Hawtrey' on the depreciation of the commodity value of the dollar due to redundant supplies of gold in America, and he 'very decidedly disagree[d] with him.' BoE OV31/6.

- 238 Hawtrey's Memorial, 26 January 1920, T 172/1157.
- 239 Norman to W. H. Clegg (Governor of the South African Reserve Bank), 10 January 1924, BoE 34/117.
- 240 Norman to Vissering (Governor of the central bank of the Netherlands), 14 January 1924, Vissering papers, quoted in Péteri, *Revolutionary Twenties*, p. 163.
- 241 Norman to Strong, 16 June 1924, BoE G3/180.
- 242 Norman to Siepmann, 14 June 1924, BoE G3/180; OV33/71.
- 243 Third president (1938–1943) of the National Bank of Hungary.
- 244 Goode Papers, BoE OV33/60, p. 19. The agreement was 'secret' to the extent that both parties understood it to be their interests to conceal it from the general public in Hungary.
- 245 Inflation was officially abolished in Hungary on 23 June 1924, and the new National Bank of Hungary commenced its operations on 24 June.
- 246 Diary entries, 7 and 8 June 1924, BoE ADM 34/13.
- 247 The National Bank of Hungary, as successor to the Note Issuing Institution, agreed to take over the Institution's liability to the Bank of England in respect of the advance.
- 248 Loan agreement declaration, 14 June 1924, BoE OV33/37.
- 249 In 1928, at the time of the negotiations to secure a League-sponsored stabilisation loan for Bulgaria, a controversy evolved between Sir Arthur Salter and Sir Otto Niemeyer on this subject. Salter argued that British advisers had been sent to all the four countries which had previously received a League loan, i.e. Austria, Hungary, Greece and Estonia, and this should be avoided in the case of Bulgaria. However, Salter's French candidate was not acceptable for Niemeyer.
- 250 Orde, *British Policy...*, p. 142.
- 251 In the case of the National Bank of Austria, the adviser's post was eventually filled by the British foreign exchange specialist C. R. Kay, about whom Norman entered in his diary already in May 1923 that 'R Kay wants a job.' (BoE ADM 34/12). In January 1929, Kay became 'Adviser to the Chief Cashier' of the Bank of England, and for seven years, until his death, he oversaw the Bank's contacts with the foreign exchange market. (Sayers, *The Bank of England*, p. 426.) His closeness to the governor was marked by the 'My Dear Monty,' address which Kay used in their correspondence. (BoE G3/182)
- 252 Norman to Victor Moll, 8 May 1924, BoE G3/180.
- 253 Janssen to Strakosch, 28 April 1924, BoE OV33/71; BoE G3/180.
- 254 Norman to Strong, 16 June 1924, G35/4. Strong recommended a long list of possible American candidates for the post, both practical bankers and 'University men.' Norman replied that 'Norman [H.] Davis, secretary of the U.S. Treasury, seemed to me the best name [...] but nobody believes that he would consider for one moment going either to Budapest or to Vienna.' (Strong to Norman, 29 May 1924, Norman to Strong, 3 June 1924, BoE G35/4)

- 255 Harry Arthur Siepmann (1889–1963). Joined the Treasury in 1912. Following army service in the war was a member of the Treasury team at the Paris Peace Conference. Assistant to the Finance Member of the Viceroy's Council (Sir Basil Blackett) in India, 1923–24. Adviser to the National Bank of Hungary, 1924–26. From 1926, adviser to the governors of the Bank of England on foreign relations with special responsibility for Central Europe. From 1930, exclusively dealt with affairs related to the Bank of International Settlements. Executive director of the Bank of England, 1945–54.
- 256 Norman to Blackett, 21 May 1924, BoE G3/180.
- 257 Norman to Blackett, 27 October 1924, BoE G3/182.
- 258 Siepmann to Norman, 14 June 1924, BoE OV33/71.
- 259 Norman to Siepmann, 14 June 1924, BoE G3/180.
- 260 Norman to Strong, 16 June 1924, BoE G35/4; G3/180.
- 261 Norman to Siepmann, 14 June 1924, BoE G3/180.
- 262 There was a temporary halt to the Dutch portion of the loan when Peter Bark 'object[ed] in principle to a Dutch Issue in Sterling [because if it is] conceded to the Dutch it would have to be conceded to the Swiss, Italians and others. Consequently we must either object to the Dutch adopting Sterling or expect the *whole* Loan to be issued in Sterling. This question was apparently fought over the Austrian Loan, although I confess to having entirely forgotten it.' The issue of sterling bonds abroad would have been in breach of Norman's policy of strict export controls on sterling. Therefore Norman instructed Anthony de Rothschild 'to amend the consent you telegraphed to the Delegation.' Finally the Dutch tranche was issued in Dutch guilders. (BoE ADM 34/13 and Norman to Anthony de Rothschild, 14 June 1924, G3/180)
- 263 Diary entry, 1 July 1924, BoE ADM 34/13; Goode Papers, OV33/60, p.20.
- 264 Norman to Popovics, 9 July 1924, BoE G3/181.
- 265 Norman to Bethlen, 7 July 1924, BoE G3/181.
- 266 Barclay to Chamberlain, 25 March 1925, FO 371/10778/C4508/4508/21.
- 267 In opposition to socialist French Prime Minister, Edouard Herriot, who favoured participation, the French government as a whole voted against a French issue.
- 268 Ormos, *Az 1924 évi...*, p. 135.
- 269 For this privilege, the Hungarian government granted the right of pre-emption to Speyer and Co. for any further instances of Hungarian government transactions on the American money market. (Ormos, *Az 1924 évi...*, p. 135.)
- 270 League of Nations, *The Financial Reconstruction of Hungary...*, pp. 220.
- 271 Speech to the National No-More-War Congress in London, 1 December 1924, *The Times*, 2 December 1924.
- 272 'The New National Bank of Hungary, Its Origin, organisation, aims and duties' by Alexander Popovics, President of the National Bank of Hungary, *OKME*, 24 June 1924, BoE OV33/37.

- 273 Popovics, the president of the new central bank, thought it 'impolitic to make the actual appointment until after the issue of the Italian tranche.' The latter was issued on 10 July 1924. The Hungarian loan was subscribed in the UK, the United States, Italy, Switzerland, the Netherlands, and Sweden by 10 July. (League of Nations, *The Financial Reconstruction of Hungary...*, p. 220).
- 274 Siepmann to Norman, 10 July 1924, BoE OV33/37.
- 275 'The management [...] means the President, [Tabakovits], and me.' (Siepmann to Norman, 30 December 1924, BoE OV33/37.)
- 276 BoE OV33/37–41.
- 277 Many dispatches used the diplomatic bag. 'There is still postal censorship in Hungary[.]' Siepmann wrote, '[i]t will be advisable to use the Foreign Office bag in case of need.' (Siepmann to Lubbock, 25 August 1924, BoE OV33/37.)
- 278 Norman to Strakosch, 30 September 1924, BoE OV33/37.
- 279 *Loc. cit.*
- 280 The predecessor of the National Bank of Czechoslovakia. See section (II) 4.8.
- 281 Siepmann to Norman, 28 August 1924, BoE OV33/37.
- 282 Siepmann to Norman, 28 August 1924, BoE OV33/37.
- 283 Lubbock to Siepmann, 15 August 1924, BoE G3/181.
- 284 The statutes of the Bank required a 20 per cent cover, but it aimed at attaining the conventionally recommended 40 per cent. See further below.
- 285 Popovics's speech to the General Council of the National Bank of Hungary, 28 September 1925, Hungarian National Archives, OL Z6–26. 1.cs. At the time of decontrol in July 1926, the gold cover of the Hungarian currency stood at the high rate of 55 per cent.
- 286 Siepmann to Norman, 24 September 1924, BoE OV33/37.
- 287 Siepmann to Norman, *loc. cit.* The letter was written soon after the conclusion in Berlin of the Hungarian-Soviet trade agreement.
- 288 Siepmann to Norman, 10 October 1925, BoE OV33/40.
- 289 *Loc. cit.*
- 290 'Die Art der Kontrolle in Ungarn,' *Morgenblatt*, 13 February 1925, *Neue Freie Presse*, as preserved in BoE OV33/38, fol. 27.
- 291 'Temporary Borrowing by Central Banks,' by Strakosch (?), October 1924, BoE OV33/37.
- 292 Siepmann to Norman, 31 October 1924, BoE OV33/37.
- 293 A restriction was made in the case of Austria and Hungary where the bank's foreign adviser had to give its formal approval before such a deal could go ahead. (Siepmann to Norman, 12 September 1924, BoE memorandum, November 1924, BoE OV33/37.)
- 294 Sir William Goode praised the 'League of Central Banks,' which had 'no visible organisation [but] rested on a widespread network of personal contacts, centred round the Governor [Norman] and the leading officials of the Bank of England.'

- In the 1930s, the League, according to Goode, in addition to laying down 'the groundwork upon which [...] the Bank for International Settlements was built up,' also 'had great merits in encouraging small countries to resist [N]ational [S]ocialist influence.' Goode Papers, BoE OV33/60, pp. 111–13.
- 295 Memoranda on discussions with Siepmann, 25 and 26 November 1924, BoE OV33/37; BoE OV50/2, fol. 5.
- 296 BoE OV50/2, fol. 42.
- 297 Siepmann to Norman, 17 September, BoE OV33/37.
- 298 'Some Points Discussed with Mr. Siepmann, 15/17 June 1925,' BoE OV33/39.
- 299 Norman to Siepmann, 15 December 1924, BoE G3/181.
- 300 Tallós, *A Magyar Nemzeti Bank*, p. 561.
- 301 25 monthly reports, Smith to the Financial Committee of the League of Nations, BoE OV33/75.
- 302 Tallós, *A Magyar Nemzeti Bank*, pp. 560, 565.
- 303 Tallós, *A Magyar Nemzeti Bank*, p. 564.
- 304 *Ibid*, pp. 562–63.
- 305 League of Nations, *The Financial Reconstruction of Hungary, General Survey and Principal Documents*, p. 41.
- 306 Siepmann to Norman, 21 November 1925, BoE OV33/40.
- 307 'The Stabilization of the Hungarian Crown and the Introduction of the Pengő Currency,' Budapest, January 1927, BoE OV33/73; Péteri, *Revolutionary Twenties...*, p. 173 and note no. 88.
- 308 In some localised instances gold was used as official means of payment in Hungary in contravention of the spirit of the stabilisation plan. (*Magyar statisztikai évkönyv*, Új folyam XXXI, XXXII, XXXIII, 1923, 1924, 1925, [Hungarian Statistical Yearbook, New Course] Magyar Királyi Központi Statisztikai Hivatal, [Budapest, 1927]: p. 174.)
- 309 346,000 crowns to £1.
- 310 Unsigned memorandum, 9 October 1924, BoE OV33/37.
- 311 Churchill to Niemeyer, 2 January 1925, T 171/246.
- 312 Robert Skidelski, *John Maynard Keynes 2, The Economist as Saviour 1920–1937* (London: Macmillan, 1992), p. 200.
- 313 Minutes of the General Council of the National Bank of Hungary, 28 August 1925, Hungarian National Archives, OL Z6–26.1 cs.
- 314 Minutes of the General Council of the National Bank of Hungary, 28 September 1925, Hungarian National Archives, OL Z6–26.1 cs.
- 315 The supplementary agreement remained in force until the announcement of the gold content of a new unit of Hungarian currency. (Norman to Popovics, 15 September 1925, Hungarian National Archives, OL Z9–25/1925.)
- 316 The Commissioner-General's 25th (Final) Report, FO 371/11370/C8507/443/21; BoE OV33/40.
- 317 Popovics's memorandum, 8 October 1924, BoE OV33/37.

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- 318 György Ránki et al eds, *Magyarország története 1918–1945* [The History of Hungary 1918–1945], (Budapest: Akadémiai Kiadó, 1988), p. 497.
- 319 Alice Teichova, 'Interwar Capital Markets in Central and Southeastern Europe', typescript conference paper, 1994, deposited at the National Bank of Hungary.
- 320 The Commissioner-General's 25th (Final) Report, FO 371/11370/C8507/443/21; BoE OV33/40.
- 321 'Austria and Hungary. Two League Tasks Completed,' article by Sir Arthur Salter in *The Times*, 9 July 1926.
- 322 The starting rate was 71,440 crowns to the dollar. 'Siepmann to Norman, 21 November 1925, BoE OV33/40.'
- 323 C. P. Mahon (Chief cashier of the Bank of England) to Siepmann, n.d. (24?) [November 1925], BoE OV33/40.
- 324 Resolution adopted by the League of Nations, 10 June 1926, FO 371/11370/-7688/443/21. The appointments of the League commissioners of both Hungary and Austria (Alfred Zimmermann) came to an end on the same day, 30 June 1926, and they left their posts, Budapest and Vienna, simultaneously. On his departure from Vienna, Zimmermann wrote to Norman: '[Y]ou stood at the cradle of reconstruction and your powerful help was essential in its success.' (Zimmermann to Norman, 30 June 1926, BoE OV28/62) In Austria, it took 18 months longer than the period contemplated in 1922 for the League to certify the financial stability of the country.
- 325 'Hungary's Financial Situation,' *The Times*, 20 July 1926.
- 326 Norman to Popovics, 12 June 1926, BoE OV33/74.
- 327 Barclay to Chamberlain, 28 June 1926, FO 371/11370/C7497/443/21.
- 328 E.g. Niemeyer to Bud, 4 November 1926, BoE OV33/74.
- 329 Goode became known to the Hungarians by the affectionate term 'Vilmos bácsi' (Uncle William).

CHAPTER 3

Politics and Diplomacy: The 'Pivot' of Central Europe

3.1 THE POST-WAR PHASE

Although the aspirations of the Czechs to end their relationship with the Habsburgs, and of the Slovaks to at least transform their status within the Kingdom of Hungary, had been taking shape gradually since the mid-19th century, Czechoslovak independence resulted from the military exigencies of the First World War.¹ Contacts between the Czecho-Slovak National Council and the British government were initiated relatively late in comparison with their more intimate relationship with the French and the Italians. It was on 10 May 1918 that Henry Wickham Steed, one of the leading figures of the New Europe group, introduced Edvard Beneš, Secretary of the Czecho-Slovak National Council in Paris, head of the Czechoslovak independence movement abroad, to the British Foreign Secretary, A. J. Balfour. The context of the meeting was a discussion on the use to which the Entente could put the sizeable Czechoslovak legion scattered at various parts of revolutionary Russia. Beneš asked for the recognition of his incipient state. To the adroit Czech politician, these negotiations represented the 'first decisive step' on the part of Britain to 'promote the Czechoslovak "national and political aims," and the decisive element was clearly the Czecho-Slovak army in Russia.'² It was on 2 August 1918, in appreciation of the actions of the Czechoslovak Legion, exerted primarily against the Bolsheviks in Western Siberia, that the British government, emulating their French and Italian counterparts, accepted a declaration recognising the Czecho-Slovak National Council, led by Tomáš Garrigue Masaryk and Edvard Beneš on behalf of the Czechs, and Colonel Milan Štefánik on behalf of the Slovaks, 'as the present trustee of the future Czecho-Slovak government.' On 9 August, Balfour conferred the British government's recognition on the 'Czechoslovaks' as a 'belligerent Allied nation.'³ On 2 September, the United States acknowl-

edged the Council as a 'de facto belligerent government,' and on 14 October Beneš proclaimed the establishment of a provisional Czechoslovak government, with its seat in Paris.⁴ Rather exceptionally, recognition came before the country effectively acquired a fixed territory and a defined population. Following this prelude, Beneš was invited to participate at the plenary session of the Supreme War Council on 4 November 1918.⁵ The secession of Czechoslovakia was tantamount to a death sentence for Austria-Hungary. The Dual Monarchy may have survived territorial adjustments along its peripheries in favour of adjacent countries, but not the removal of its central lands. The British were more cautious in recognising Czechoslovakia,⁶ than any other Allied power, but their role in the process was essential. Beneš understood that the British interest in intervention in Russia could be the key to recognition. In the early summer of 1918, he informed Masaryk that 'we shall break through in France easily, if England goes along.'⁷

The Czechoslovak idea was born out of the concept of the self-determination of the suppressed nationalities of the multi-ethnic empires. And yet, the new country, whose territorial delimitation reflected historical and strategic criteria at least as much as ethnic principles, contained within its borders many breaches of this ideal. The Bohemian and Moravian portions of Czechoslovakia owed their borders mainly to historical argument, the territory of the Slovak part of the republic was partly based on ethnic and partly on strategic and economic principles, while the Ruthenian portion owed its assignment to Czechoslovakia entirely to strategic considerations. With its large German, Hungarian and Ruthenian minorities, unresolved territorial disputes with practically all of its neighbours, and the uneasy relationship between the Czechs and the Slovaks themselves, Czechoslovakia became a microcosm of the old ethnic conflicts within Austria-Hungary, albeit in an altered form and different composition. A staunch advocate of the new state and its envisaged borders at the time of its creation, together with R. W. Seton-Watson and many of his supporters in the New Europe group, was Lewis Namier, who had recently been recruited into the Political Intelligence Department of the Foreign Office.⁸ In stark contrast to Namier's consistent insistence on the imposition of ethnic frontiers on Poland, his memorandum entitled 'The Czecho-Slovak State,' dated 7 December 1918,

defended the application of the historic and economic principles to the detriment of ethnographic ones in the case of Czechoslovakia. He judged that the fact that 'Bohemia's most important industrial and mining districts' were located in the mountainous Sudeten areas in the west meant that 'in this case, the ethnic division seems to suggest a course of action which must not be adopted.'⁹ In the question of southern Slovakia, where practically the opposite standards were applied, Namier argued that pre-war Hungarian policy had alienated the Slovaks, coupled with the tenuous explanation that 'Slovakia is not bound up with Hungary as German Bohemia is with Bohemia.'¹⁰

Yet both the French and the British were uncomfortably aware of the defects of the settlement in the heart of Central Europe, which awarded historical and strategic borders to victorious successor states, and narrowly defined ethnic borders to the defeated heirs of Austria-Hungary. The British, while accepting that geographically and economically 'Czecho-Slovakia is the natural pivot,'¹¹ privately harboured serious doubts. Admitting the question marks over the Central European jigsaw, James W. Headlam-Morley, the recently appointed historical adviser to the Foreign Office, warned that

if there is a debate, the Government will be attacked chiefly on the Tyrol, on the clause forbidding Austria to join Germany, and [...] on the frontiers of Bohemia. On the latter I think an even stronger case can be made; [...] I imagine it is generally agreed that there is really no defence possible.¹²

In explanation, the historical adviser pointed to the hierarchical decision-making mechanism of the Peace Conference, but offered no hope of a post-treaty solution: 'When the thing was discussed in Paris [...] the [territorial] Commission took the view that the responsibility for this rested with the Supreme Council and it must be left with them to defend their action.'

The first phase of Anglo-Czechoslovak relations in the aftermath of the war was still infused with the close proximity of the last months of the war and of the Peace Conference. It was only to be expected that the British would remain sympathetic to their wartime allies. Cecil Gosling,

Britain's first diplomatic representative, temporary chargé d'affaires, in Prague,¹³ initially lent his support to the new state's aspirations towards nation-building.¹⁴ He concurred with his hosts' policy of denying concessions from the German minority, whose notions of cultural superiority, it was feared, would only increase as a result. Yet Gosling, with Basil Coulson, the British military attaché, as his main ally¹⁵ soon shifted his position, and became associated, first with the 'Blacks,' the name given by the British to the old Bohemian aristocrats of pro-Habsburg sentiment, who regarded the new régime with disdain, and then with the grievances of the German minority. Gosling espoused Masaryk's suggestion that the Germans be given a charter of rights, even suggesting at one point that British troops be dispatched to monitor the situation in the Sudeten areas.¹⁶ It is likely that Gosling's intercessions played a role in the drafting in Paris of a minorities treaty which the Czechoslovak government signed in 1919.¹⁷ By the end of that year, the British chargé d'affaires had acquired the reputation of a strong critic of the Czech establishment's policy towards the German minority.

Sir George Clerk took up his post at the Thun Palace in Prague as Britain's first minister in Czechoslovakia in February 1920. As a member of the New Europe group, he had a natural affinity towards the former émigré leaders of the Czechoslovak movement. Throughout his seven years of official duties in Prague, he worked assiduously to fulfil the hopes of the peacemakers to make Czechoslovakia the pivot or 'lynchpin,'¹⁸ as he called it, in the new Central European system. He even judged that it might even become Britain's 'best bridge to Russia.'¹⁹ Clerk's decisive role in consolidating the situation in Hungary the year before he arrived in Prague had given him a wider perspective on the new distribution of political forces in Central Europe, and on the odds stacked against regional co-operation which he set out to help surmount. As we shall see, whenever elements of strain entered into relations between Britain and Czechoslovakia, he endeavoured to act as fence mender and mediator. It was probably due to his work that whatever faults may have been attributed to the internal and external policies of the Czechs, the basic British perception throughout the 1920s remained that in the interest of its survival the new Czechoslovak state had to assert its authority without much compromise.

In the first annual report on Czechoslovakia (for 1920) Clerk immediately struck a cordial note towards the newborn state and its governing establishment without, at the same time, showing prejudice against its principal German minority.²⁰ The ebullience of the Czech politicians was not well-received by British officials. Pro-Czech commentators, like Harold Nicolson, used Clerk's reports to mitigate the unfavourable impression: 'Sir George Clerk [...] explains the conceit and suspicion, which so irritate us in dealing with the Czecho-Slovak Government, as the necessary result of their former subservience and their present diffidence.'²¹ E.H. Carr, who had served in the New States Committee of the Paris Peace Conference under James Headlam-Morley,²² and remained part of a small British staff to stay on in Paris as part of the Conference of Ambassadors,²³ adopted a more censorious tone towards the novices of European politics. He declared that they were 'semi-oriental' people, whose 'crooked behaviour' led to stalemate in the territorial dispute 'in Teschen where we have throughout acted on the assumption that the two parties are very much the same sort of people as ourselves.'²⁴

Clerk's early analyses from Prague mainly dealt with the three main difficulties which the new state faced: the German minorities, the agrarian question, and the relation of Slovakia to the main body. By what Nicolson called an "'orgy" of legislative enactments,' the new state set out to solve these problems within as short a time as possible during the first full year of its existence. Clerk conceded that

to transform the Germans [...] was rendered infinitely hard [...] by the fact that [...] Lodgmann on the German side and Kramar on the Czech, were both ultra-nationalists. Coupled with this was the bitterness engendered by the war—the Czechs had been deliberately starved to feed the Germans and the Magyars. [T]he Czech was obliged to act harshly, if he was to establish himself.²⁵

At this time any British criticism of Czechoslovakia for its handling of the Sudeten issue was rare. There was a degree of acceptance on the part of the British of the Czechoslovak policy toward their German minority as necessary to assert a new identity over the multiethnic state. The only

exception to this general attitude was Clerk's reaction to the Czechoslovak land reform which he judged to be no better than ill-thought-out revenge against the erstwhile Austrian nobility.²⁶ As regards the nature of Britain's relations with Czechoslovakia, Clerk surmised that both President Masaryk and Beneš preferred to see Czechoslovakia develop 'on British, rather than on French, lines.' The British Minister noted, however, that British 'interest in Czechoslovakia is more academic and benevolent than that of France.'

3.2 CZECHOSLOVAK PARTY POLITICS AND THE BRITISH

Czechoslovakia had a totally different standing in the West than Hungary and Austria, or even Poland and Romania. This was due to three principal reasons: first, Czechoslovakia had an unquestionable status as a victorious country in the war, second, it commanded an outstanding industrial manufacturing base, and third, for the above reasons, it could, from the start, assume the role of a possible counterbalance to Germany in Central Europe, a safeguard against the ghost of *Mitteleuropa*. For these reasons, the Czechs could count on both credit and sympathy. At the same time, these arguments were more relevant to the French than to the British. The French affinities were reciprocated in Prague. The opposition of post-war British governments to France's determination to punish Germany found little favour in Prague. The National Democrats, in particular, resented the British attitude. In 1921, Clerk reported that the National Democratic press in Czechoslovakia, 'never fails to attack England when her policy towards Germany appears too lenient, as it sees danger for Czechoslovakia in every step which may hasten the recovery of Germany.'²⁷

The distribution of the Czechoslovak political parties in terms of their relationship with the British revealed an unexpected pattern. Due to the early association of the Agrarian Party with the Anglo-Czechoslovak Bank, which tried to counterbalance the overwhelming influence of the Živnostenska Bank, the bank of their main rivals, the National Democrats, the British political association with the Agrarian Party became a permanent feature of Anglo-Czechoslovak relations.²⁸ The Agrarian Party

was conservative and mainly rural-based, while the National Democrats represented liberal opinion. The Agrarians looked to Russia for the salvation of Czechoslovakia and Central Europe, convinced that sooner or later the Bolshevik system would collapse. Not wishing to bring Czechoslovakia into the Western orbit, they raised no objections when the British approached the Soviet government in the early 1920s with the purpose of rebuilding economic ties. By contrast, the pro-western National Democrats contented themselves with a French orientation. The National Democratic press invariably adopted the French point of view when differences arose between the French and the British.²⁹ Another problem was the seething conflict between the leaders of the Agrarian Party, Milan Hodža, and Antonín Švehla, on the one hand, and the 'National Socialist' (left of centre) Beneš on the other. These divisions were not due to deep ideological differences but resulted from conflicting personal ambitions.³⁰ Beneš was anxious to become Prime Minister to underpin his high profile on the international scene, but could retain the premiership only for a relatively brief period from 1921 to 1923 (while he remained Foreign Secretary from 1918 through to 1935). While strongly committed to democracy in theory, Beneš did not always act as a good parliamentarian. He remained at odds with leading members of the Agrarian Party, with whom he had to share power throughout the inter-war years, and was in open conflict with the National Democrats, who should have been closer to him ideologically. The British, who subordinated their Czechoslovak policy to economic and financial exigencies and to their opposition to French economic aspirations, were content to support an agrarian group against the more Western-oriented and urban-based party, the National Democrats. The relationship between the British establishment and Beneš changed according to the situation, but was never really cordial.

3.3 WHITEHALL, BENEŠ, AND THE GENOA CONFERENCE

The conflicts between France and Great Britain over the question of European security and their clashing commercial interests put the fragile peace settlement in danger. The unravelling of the new Europe even

before its mechanisms had become firmly established posed imponderable dangers for the Czechoslovak state. As Beneš put it in 1921, '[i]ntimate co-operation with France and Britain is the *conditio sine qua non* of our entire policy.'³¹ Yet, the Czechoslovak Foreign Minister had great reservations about Lloyd George's idea of holding a European economic conference on reconstruction. Already at the Porto Rosa meeting in October-November 1921, the Czechs and the Poles resisted initiatives to temper their drive towards autarky.³² Furthermore, afraid that Anglo-French differences over German reparations and the Soviet-Russian demand for diplomatic recognition would drive further wedges between the Western powers, Beneš recommended that states should seek bilateral solutions to outstanding problems.³³ While Beneš began to move towards embracing the idea of a multilateral meeting, his government was not informed by Lloyd George and Briand about their plan to convene a conference for January 1922. When he learnt about the planned gathering, Beneš took the initiative by advising the powers on ways of approaching the Soviet question.³⁴ He recommended a common platform from which the West, Czechoslovakia, Poland, Yugoslavia and Romania should deal with the Soviets.³⁵ Beneš also feared that the French might not attend the Genoa meeting at all.³⁶ Intending to heal the rift between Britain and France, the Czechoslovak Foreign Minister acted quickly. Arriving in Paris on 13 February 1922, he obtained Poincaré's and Jacques Seydoux's³⁷ consent to Czechoslovak membership in the Allied preparatory commission for the conference. Poincaré even sent a note to London, in which he suggested that the Little Entente ought to be invited as a bloc to attend the conference.³⁸ Beneš proceeded to London on 17 February, where he held discussions with Curzon and Balfour as well as Lloyd George, and claimed to have achieved major results. He informed the Czechoslovak Legation in London, that due to his influence, the Genoa Conference would be postponed until late March,³⁹ that neither the peace treaties nor the question of reparations would be open for discussion, that the Little Entente would have a semi-official position in the preparatory phase of the conference,⁴⁰ and that the League of Nations would retain centre stage. He further stated that although invited to the conference, the Bolsheviks would not be given de

jure recognition, pending the outcome of negotiations; and most importantly of all, the powers would consider the issue of a European nonaggression pact. Beneš also claimed that Lloyd George had asked him to take these proposals to Paris as the basis of a 'compromise between England and France.'⁴¹ Although the British sources do not support the Czechoslovak Foreign Minister's bold assertions, Lloyd George, having initially refused Beneš's package,⁴² did visit Poincaré on 25 February 1922. The two statesmen hammered out a compromise, which, in the end, was closer to Poincaré's course than to that of Lloyd George.⁴³ In fact Lloyd George, in the company of Hardinge, the British Ambassador in Paris, and Hankey, met Poincaré for a final time before Genoa on 7 April, when Lloyd George managed to dissuade Poincaré from including the entire Little Entente in all the commissions of the conference.⁴⁴

In Genoa, the Soviet representatives participated for the first time at an international meeting. French pressure on both the Russian and German delegates to honour their reparation and debt obligations (the latter to include the old Tsarist debts) further alienated the two outsiders, who moved together to conclude the Treaty of Rapallo. Beneš was critical of this aspect of France's eastern policy. As reported by Clerk from Prague, 'President Masaryk and Dr. Benes never lost sight of the extreme importance on commercial grounds of coming to some definite agreement with Russia—the Russian market being vitally necessary for Czechoslovakia.'⁴⁵ In the commercial sphere, therefore, the Czechoslovak position was closer to that of Britain which had had a trade agreement with Russia since 16 March 1921. The conclusion of a commercial treaty between Czechoslovakia and the Soviet Union, agreed with Chicherin, and finalised in Prague on 5 June 1922 was probably Beneš's most important achievement in Genoa. The agreement governed Czechoslovak-Soviet relations for a long time to come. While not being able to declare it publicly, it is arguable that Beneš hoped ultimately to rely on Russia for political and military support against Germany, but could do nothing in this direction as long as France, Poland, Romania as well as Yugoslavia, and a considerable section of Czechoslovak domestic opinion (the National Democrats), opposed recognition.⁴⁶ Vlastimil Tusar's⁴⁷ discussions in Berlin suggested that Beneš's persuasive messages

regarding the importance of improving European security before the specific issue of reparations was addressed also appealed to the Germans whom he had encouraged to come to Genoa.⁴⁸

It is difficult to trace the connecting links between Beneš's wider European policy at Genoa and his Central European policy. Though he had lobbied energetically to achieve the appearance of the Little Entente as a distinct group, Beneš often pursued his aims separately. There was little harmony among Romania, Yugoslavia and Czechoslovakia at Genoa.⁴⁹ In addition, Beneš found a rival in Konstanty Skirmunt, the Polish Foreign Minister, who was also eager to play the part of a middleman between West and East in the hope of obtaining recognition of Poland's Eastern frontiers. The Genoa Conference was a frustrating experience for Beneš both as a false start in general post-war reconciliation, and as a forum to sort out the problems of Central Europe in particular as Britain and Italy, in the face of opposition from France and the Little Entente, undertook to represent the pleas of the Hungarian and Bulgarian governments for the improvement of the situation of their minorities in the new successor states.⁵⁰

The safety of Czechoslovakia depended on reconciliation in Europe. 'Collective security' under the aegis of the League of Nations was supposed to achieve that aim on a general basis, and it was one of Beneš's foremost objectives to promote the theory and practical implementation of that principle. The Czechoslovak statesman was decidedly opposed to the emergence of a League in which the Great Powers determined the fate of the smaller ones. At the same time, Beneš supported the continuation of the wartime alliance between Britain and France as one of the guarantees of his concept of an equitable balance of power in Europe. Yet, there appeared to be scant confidence in the success of collective security, and Beneš, however reluctantly, understood that an overall security system could not be achieved in the short run. Therefore, he also backed the regional forms of co-operation, whether in the west or in the centre, which, in his view, served the long-term survival of the post-war European settlement.⁵¹

3.4 AWAY FROM THE LIMELIGHT: BENEŠ AND HUNGARIAN POLITICS

On several occasions, Beneš expressed his desire for a leftward change in the political leadership of Hungary. In the middle of March 1921 (two weeks before Charles IV's first attempt to re-occupy the Hungarian throne), he hinted to Count Teleki, then Hungarian Prime Minister, that Czechoslovak territorial concessions may be possible in return for the internal transformation of Hungary into a state with which other Central European countries could live in peace.⁵² At the Bruck talks, Beneš also submitted a list to the Hungarians which demanded the release of political prisoners.⁵³ The Czechoslovak Foreign Minister's brief on behalf of Hungarian Social Democrats may also have been the result of his rapport with Count Mihály Károlyi, Hungary's failed socialist ex-president. Károlyi, who had no support in the British Foreign Office at any time during his career,⁵⁴ was granted political asylum in Czechoslovakia, and though he only stayed until October 1920, 'the Count's conduct towards the republic had been perfectly loyal and correct.'⁵⁵ Beneš shared the political verdict of R. W. Seton-Watson, the leader of the New Europe group, now retired from active politics, that following the Trianon settlement, Hungary remained a semi-feudal state, and that many Central European problems could be solved by the reform of the Hungarian system.

At the end of June 1922, Hohler reported from Budapest that Count Miklós Bánffy, the Hungarian Foreign Minister, had shown him an interview published in the journal of Hungarian communist émigrés in Vienna, according to which Beneš had criticised the Horthy régime, and had also told the *Bécsi Magyar Újság* that the 'Czechoslovak government follows with interest fortunes of Hungarian labour emigrants [...] who [...] have [...] Czech moral support. [E]migrants ought to return to Hungary, and there and not abroad, prepare for coming of new era.'⁵⁶ Bánffy told Hohler that the Hungarians were preparing to suspend diplomatic relations with Prague 'unless Benes entirely and publicly withdrew these remarks.'⁵⁷ Bánffy's indignation was especially intense as he remembered Benes telling him at Genoa three months earlier that 'he wished to turn the Little Entente into an international agreement, so that it [...] would embrace Hungary in a comprehensive commercial and economic

scheme.⁵⁸ As an initial reaction, Basil H. Barber of the Central Department of the Foreign Office remarked that he doubted whether Beneš had made the statements in view of the high-level talks scheduled between Hungary and Czechoslovakia. The Foreign Office sought further clarification. Aretas Akers-Douglas, the British Minister in Vienna, reported that 'Benes declared [the words attributed to him] entirely apocryphal.'⁵⁹ Clerk's inquiries revealed that Beneš did speak to correspondents of the Hungarian journal, but the publication was 'entirely unauthorised and [...] at variance with [his] entirely private [...] few remarks [...] made to the correspondent.' Clerk wrote that in spite of the disclaimer issued in Prague, the unexpected success of the Social Democrats at the recent Hungarian elections was 'cordially welcome[d]' in Prague.⁶⁰ Although Beneš's official disavowal satisfied Budapest and effectively closed the incident, Barber, at the Central Department noted that Bánffy's comments 'appear[ed] to be justified', if Beneš had given an interview to the 'Viennese communist rag.'⁶¹

The story seems to have been pursued further by the Foreign Office. In July 1922, an intelligence report was received from Prague, quoting a 'well placed informant in the Czechoslovak Ministry of Foreign Affairs.' According to this source, Hugo Vavrečka, the Czechoslovak Minister appointed to Budapest following the resumption of diplomatic relations with Hungary after the Habsburg *coup débâcle*, was 'entrusted by Beneš with a delicate mission.' He was to sound out Bánffy to see 'how far he would favour the formation of a Social Democrat Government in Hungary.' In case of a favourable answer, 'Beneš was prepared to [...] support considerable frontier readjustments.' The informant reported that Beneš had recently approached Pašić, the Yugoslav Prime Minister, and 'attempted to persuade him to agree to a similar concession from Yugoslavia.' According to the source, during the recent Hungarian elections, 'Benes gave the Social Democrat Party the sum of 3 million Kč. [Czechoslovak crowns] for their election funds, [and n]egotiations with the Hungarian Social Democrats still continue[d].'⁶² The informant further revealed that 'on the 19th July [1922], a delegation secretly visited Benes by motor, conducted by an officer of the garrison at Komorn. They arrived in Prague at 9 a.m., and the interview lasted till 2 p.m., when

they returned by the same way as they had come.' Readers of these reports, such as Cadogan, were 'doubtful of the story,'⁶³ and were not enthusiastic about Beneš's interference in Hungarian politics.

3.5 MASARYK AND BENEŠ IN BRITISH EYES

The lukewarm attitude to Beneš in London contrasted sharply with the appreciation and confidence extended to the Czechoslovak President, Tomáš Masaryk. Masaryk's view that France had to find a compromise with Germany accorded with British policy. The President summed up the British standpoint when he declared that he understood the nervousness that motivated the French: forty million against seventy, but that nervousness was creating an ambition which would defeat its own ends. At the time of the visit by Masaryk and Beneš to London in the autumn of 1923,⁶⁴ the British staged a fitting welcome for the Czechoslovak President.⁶⁵ At the end of 1924, Masaryk told Clerk:

France thought that by bolstering up Poland and calling it a Great Power, and pressing support on Czechoslovakia so far as his country allowed her to do so, she would make herself secure against Germany. This was a fallacious policy, based on the mistaken idea that France could obtain the hegemony of Europe.⁶⁶

Masaryk hinted that he did not expect that the Geneva Protocol, Beneš's ardently pursued aim, would be accepted. In the president's opinion, Britain, with her empire, 'could stand aloof from the Continent.' Masaryk also understood that 'England was not going to shoulder obligations to Central Europe.' To Clerk, 'it would seem that [Masaryk] had not the confidence of his Foreign Minister in "regional treaties".' Lampson's minute also noted the internal factors that weakened Czechoslovakia as a bulwark for peace in Central Europe: 'All very sound doctrine. But it is a pity the Czechs are not more conciliatory to the *Slovaks*. With the Deutsch-Böhmen & possibly also the Slovaks against them, their position would be very far from secure in the event of trouble in Central

Europe.’⁶⁷ Austen Chamberlain’s ‘impression [was] that Dr. Masaryk counts for a good deal & Mr. Benes for very little at home. Am I right or wrong?’⁶⁸ Lampson answered: ‘Perfectly correct.’ The head of the Central Department explained that

Dr. Masaryk [...] had at one time hopes of educating Dr. Benes up to being his eventual successor. But he soon saw this was not feasible, & Dr. Benes resigned the premiership. *Internally* Dr. Benes counts for not very much: externally he is the pebble on the beach, & is left practically a free hand. Personally I find him far too specious & plausible. Also, he is undoubtedly a meddler in things that concern him not.⁶⁹

During the summer of 1925, when the details of the Western security treaty were being debated in the European capitals, Masaryk was keen to point out that ‘he was looking to England to take the lead in European politics, [...] France was not in reality strong enough to do so,’⁷⁰ but warned that the British must realise ‘that the future of Europe lay between England and Russia—not the Russia of to-day, but the Russia that would inevitably develop sooner or later—and [the British] must take time by the forelock.’ Masaryk could also find sympathy in London when he declared (in agreement with Beneš) that ‘a smaller and more homogeneous Poland would be more stable.’ Nicolson’s minute: ‘Professor Masaryk’s views are always detached and erudite,’⁷¹ reflected the general British appreciation of the Czech president.

3.6 THE BRITISH AND THE ETHNIC PROBLEMS OF CZECHOSLOVAKIA

The British often disapproved of certain aspects of Czechoslovak foreign policy. In addition, Clerk’s favourable attitude to the Czechs differed from that of his subordinate, George Bailey Beak, the British Consul at Prague (1920–1921), who became a champion of the grievances of the German minority in Bohemia. On a number of occasions, Beak wrote directly to

Curzon to intercede on behalf of the Sudeten Germans. When he embraced the cause of the *Deutsch-Böhmen* who were organising rallies in Vienna and Karlsbad (Karlovy Vary) to demand improvement in their status in the successor states, Lancelot Oliphant of the Central Department noted: 'I don't quite know why Mr. Beak sends us this direct. It ought surely to have come through the Legation, if at all,' and sent the dispatch back to Prague, commenting to Clerk that it ought to have been submitted to the British Minister first. 'We regard,' Oliphant added, '[the dispatch] as nul et non avenue [...] as I don't wish to create officially [another] "incident" with regard to Beak's misdemeanours.'⁷²

Another resident British critic of the Czechoslovak establishment was the consul in Bratislava, Robert Smallbones,⁷³ who made every effort to represent the 'silent' part of the Czechoslovak state. Describing the heavily integrated position of Slovakia within Czechoslovakia, and the resulting dissident movements, especially that headed by the Catholic priest Hlinka, Smallbones explained that the 'Autonomists' had turned 'Irredentist,' and were bent on establishing 'home rule' for Slovakia. Smallbones perceived local signs of 'the chauvinistic epidemic called Fascismo, [which] goes under the name of "Spolek Slovenskych Junakov" (the Club of Slovak Scouts), and manifests itself in Ko[š]ice and in Turčiansky Svätý Martin.' According to Smallbones, the imbalance between the Czechs and the Slovaks made 'Czechoslovakia [...] an economic monstrosity.'⁷⁴ Due to this, 'the Czechs are seeking a remedy in a commercial treaty with Hungary, but the halting negotiations are accompanied by a press campaign, which, in its unmeasured bitterness, shows that economics and politics are not running a parallel course.' Smallbones argued that the Slovaks, who had acclaimed the proclamation of Czechoslovakia 'as deliverance from the Hungarian yoke,' had become unwilling partners in the Czech state, because the Czechs had 'thrust their services on the Slovaks and a display of arrogance, based on conscious superiority [and] overran Slovakia with an army of officials, tax-collectors and gendarmes...' Smallbones maintained that '[t]he Czechs, in many ways, are the heirs of the Austrian Empire,' and their 'quest of efficiency, [often in the form of] dispensing tin providence [...] which can hardly be distinguished from a love of power, may lead to serious developments.'⁷⁵

To defend the democratic image of Czechoslovakia, R. W. Seton-Watson undertook, in May 1923, his own survey of conditions in Slovakia. In *The New Slovakia*, he argued that Czech policy had failed in Slovakia in so far as it did not take into account historic differences and sensitivities, but he regarded the suggestion that Slovakia was treated 'as a colony [...] a grotesque calumny.'⁷⁶ Smallbones dismissed Seton-Watson's visit as a Czech attempt to 'recommend [centralising policies] to his Slovak friends.' Even Seton-Watson's 'halo,' wrote Smallbones, 'failed to dazzle Father Hlinka.'⁷⁷ Nevile Butler at the Central Department accepted, on the basis of Smallbones's reports, that 'Czech policy [in Slovakia] appears to be an unpleasant mixture of Western liberal ideas and the sordid, dishonest methods of the old Austro-Hungarian Empire only slightly relieved by the absence of gross brutality.'⁷⁸ Naturally, the Czechs objected to Smallbones's reports, which began to influence Clerk's opinion as well. The Czechoslovak Foreign Ministry presented 'a long list of grievances' against Smallbones, reminding the British that the office of a consul warranted no interference in the politics of the host country and a clear hint was given that the Czechoslovak government would welcome his recall.⁷⁹ The Foreign Office decided to defend their consul, and 'up[held] Mr. Smallbones' [*sic*] claim not to have exceeded his proper consular functions.'⁸⁰ Clerk described the allegations against Smallbones as being 'exaggerated and distorted,' and attributed them to Beneš's need to 'recover some of his lost popularity' following 'the complete failure of the Czechs to obtain a fresh loan in London.'⁸¹ Fearing that the Czechs might exercise their right to revoke Smallbones's exequatur, which they could do without giving any reason, Clerk wrote a conciliatory letter to Beneš, and also warned Smallbones that his work had to be carried out 'with especial care to the susceptibilities of the ruling authorities.' Howard Smith, the First Secretary at the Central Department, found this dispatch an opportunity to vent his frustration with the Czechs, and with Beneš in particular, when he minuted: 'The Czechs have got absolutely nothing against Mr. Smallbones, who has committed no irregularities [...] and it is therefore to be hoped that they will so far play into our hands as to withdraw his exequatur. We could then tell Mr. Beneš in forcible terms what we think of him.'⁸² In the event, Robert

Smallbones stayed as British Consul in Bratislava until 5 January 1926, when he was promoted Consul General, and transferred to Monrovia, Liberia, which does not appear to be a reward for his previous service.

Smallbones in Bratislava and British heads of mission in Budapest made limited representations on behalf of the Hungarian minority in Czechoslovakia, often as part of general criticism of the Czech treatment of Slovakia. Smallbones pointed out the injurious nature to representatives of the Hungarian community of the legal difficulties of acquiring Czechoslovak nationality,⁸³ and that the 'coarseness and comprehensiveness' with which the government press issued 'foul verbiage' against their former enemies 'probably defeat[ed] its own ends.'⁸⁴ Hohler in Budapest protested against the expulsion in 1922 of 'upwards of 20,000 [ethnic Hungarian]' officials 'who refused to take the oath of allegiance to Czechoslovakia.'⁸⁵ His successor, Barclay, admitted that 'minorities have perpetually to battle for the status guaranteed by the treaties,'⁸⁶ but complained that genuine grievances were 'generally exaggerated in the chauvinist [Hungarian] press,' and acknowledged improvement when the number of Hungarian deputies 'increased to nine' after the Czechoslovak general elections in November 1925.⁸⁷ Vice-consul Arthur Dowden also reported some amelioration from Bratislava in 1925.⁸⁸

3.7 STRAINED RELATIONS

Diplomatic exchanges before the spring of 1921 marked tensions between London and Prague as well as within the British Legation in Prague, but did not indicate any fundamental differences. A degree of cordiality prevailed in the relations of the two countries until the Karlist coup attempts in Hungary in 1921. This was certainly the opinion of Lieut.-Col. A Court Repington, who wrote in his travel diary for 4 April 1921: 'I think Sir G. [is] one of our best diplomats.'⁸⁹ Clerk and Lockhart were particularly committed to good relations between the two countries. In Clerk's opinion, the foreign policy of Czechoslovakia under Beneš's leadership carried the 'potential [to be] a beacon of peace and stability.'⁹⁰ In contrast to his predecessor, Cecil Gosling, Clerk endeavoured to

improve the image of the Czechs in London. Although hardly left-wing in his politics, Clerk did his best to popularise the moderate socialism of both Masaryk and Beneš and also tried to cushion the negative impression that Czechoslovak foreign policy had created during the Karlist coup attempts in Hungary. The results of his efforts were the establishment in October 1921 and the continued survival, of the Anglo-Czechoslovak Bank, and the British role in obtaining a government loan for Prague in April 1922. Beyond this remained a legacy of anti-Beneš feeling in London.

Marshal Foch's visit to Prague on 14 May 1923 on his return to France from Poland was an ominous development for the British. Foch had already been to Prague in 1921 to propose a military alliance between the two countries. On that occasion, he was met with firm refusal. One reason for this was that Beneš had been intent on maintaining good relations with Germany for economic reasons, and also to prevent a link-up between Germany and Hungary.⁹¹ The offer of a comprehensive military alliance between France and Czechoslovakia was renewed by Foch in 1923. The international environment had changed as a result of the conflict in the Ruhr. Though Beneš had his doubts about the French action, he was also worried because of the British pro-German stance and their unusually strong support for the Hungarian reconstruction loan. Once again however, the Czechs turned down the offer of military partnership with France. It was largely with a view to reversing that latest refusal that Beneš was invited to Paris in July 1923. A further stage was reached in the Franco-Czechoslovak dialogue with the journey of President Masaryk and his Foreign Minister to Paris in mid-October. Subsequently, Masaryk and Beneš visited London in a semi-official capacity between 21 and 25 October. On that occasion, Masaryk claimed in a conversation with Curzon that the new treaty with France under preparation would be a platitudinous confirmation of both countries' desire to maintain peace in Europe and the world. The treaty meant more than Masaryk had suggested; its first announcement was made by Beneš in a speech before the Czechoslovak parliament on 30 October 1923.⁹² The Foreign Office sought further information from their ambassador in Paris. Nevile Butler observed on Lord Crewe's reply that

Dr. Masaryk and Dr. Benes desire to keep in with both England and France. [...] At present [...] Czechoslovakia is wholly with France in upholding the territorial settlement left by the Peace treaties, but not with her in her military policy. Czechoslovakia will therefore use her influence to moderate France, and the view of "The Times" that, as a result of this treaty, she necessarily becomes a French vassal is at least premature.⁹³

The *Times* article appeared on New Year's Day, 1924, and used unusually strong language. Accusing Beneš of abandoning his 'cautious and moderating influence [and] the ideal of European unity' in order to support French aims in Europe, the paper went beyond the Foreign Office interpretation of the treaty. Though many accepted that Czechoslovak interests were more closely bound with France than with Britain, the timing of the conclusion of a formal pact with France was disquieting. With the incoming Labour government in Britain poised to establish diplomatic relations with the Soviet Union, and the impending French parliamentary elections pointing towards a similar move by France, probably to be followed by Czechoslovakia, the Czechoslovak-French treaty could upset the whole balance of East-West relations, with repercussions for the treatment of Germany in Europe. Nicolson suggested that the importance of the Franco-Czechoslovak convention lay 'in the direction which it may give the Czech policy of tomorrow [...] in regard to Russia.' More particularly, Nicolson surmised that:

By using the Czechs as a *trait-d'union* with Moscow, the French will be able to counter the advantage which [the incoming British Labour administration] should otherwise have gained by taking the initiative of full recognition [of the Soviet Union]. And we shall inevitably be obliged to seek our own *trait-d'union* in Germany.⁹⁴ While the original draft of the treaty, before all concrete military clauses were mutually dropped, contained provisions such as 'Dans le cas d'une agression non provoquée de la Hongrie contre la Tchécho-Slovaquie la France s'engage à prêter assistance à Tchecho-Slovaquie et à ce concerter avec elle à cet effet,'⁹⁵ the final

terms of the Franco-Czechoslovak agreement contained broad provisions. These were: 1. mutual consultation in questions affecting the security of either country; 2. a declaration of the intention of both countries to uphold the peace treaties; 3. mutual communication of existing commitments in so far as those affect Central Europe and provision for mutual consultation before either country enters on new commitments in this area.⁹⁶

Nonetheless, even without a military guarantee pact, together with the commercial treaty signed with Paris on 17 August 1923 and the publication in May of the terms of an aeronautical convention signed in October 1922,⁹⁷ this intensification of Czechoslovak-French relations made uncomfortable reading in London. 'I much doubt,' wrote Lampson apprehensively, 'whether in the long run the Czechs will find this to have been a wise move. Even Beneš now admits that the French and Czech staffs are to confer together. We know what that means from our own experience.'⁹⁸

In an attempt to placate the British, Beneš paid a last minute visit to London before the signature of the Franco-Czechoslovak agreement in January 1924. Curzon, once again, sought clarification concerning the existence of military clauses in the new agreement (to be signed in Paris on 25 January 1924). Beneš informed Curzon of the proposed exchange of secret letters on limited Franco-Czechoslovak military co-operation, but emphasised that the agreement only confirmed existing treaty obligations between the two countries. Curzon was still curious why Czechoslovakia should 'fall into the circle of subordinate nations who are more or less attached to the French chariot wheels.' Beneš replied that '[w]ithin fifteen years [...] Germany might recover and be a strong menace on the north and the west' of Czechoslovakia, therefore the new state, whose position in the balance of Europe had not yet been established, needed 'association with a powerful military state.'⁹⁹ While the two politicians parted unreconciled, the Czechoslovak Foreign Minister's reasoning was not disingenuous. He noted later that he had caused the British considerable embarrassment by offering to negotiate a similar treaty with them as the one that he had negotiated with France but the British government were not prepared for such commitments in Central Europe.

Even though the Czechs had resisted the full incorporation of Czecho-

slovakia into the French system, the Franco-Czechoslovak treaty drew the attention of the British to the very close military links that had existed between the two countries since the establishment of the Czechoslovak state. John D. Greenway, the Third Secretary in Prague, explained:

The Czechoslovak Higher Command is still dominated by the French Military Mission [and its head, General Mittelhauser.] The French authorities are naturally adverse to any loosening of their hold on the Czechoslovak army, and the understanding reached in the recent treaty as to the collaboration of the two General Staffs is capable of wide interpretation.

Greenway described how the young Czech officer corps, 'who made their names as legionaries in France or Russia during the war,' and who are 'not, however, for the most part highly educated, and have had little or no administrative experience,' were seeking to assert their independence.¹⁰⁰ Nonetheless, Greenway suggested that the French were right to assume that the Czech politicians would want their continued presence in the country as a safeguard against the emergence of a native military cast. He called the attention of the Foreign Office to the fact that the military value of Czechoslovakia to France was fourfold: 'a barrier against Germany,' 'a check upon possible action by Austria or Hungary,' a conduit through which any anti-German alliance with Poland made practical sense, and 'the only State in Central Europe which possesses the material and facilities for production [in] a fit [s]tate for modern warfare.'¹⁰¹

Czechoslovak policy during the Karlist coup attempts, Beneš's reluctance to co-operate in the matter of the Hungarian loan,¹⁰² topped by the Czechoslovak-French convention, left considerable unease in Anglo-Czechoslovak relations.

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The mistrust was lessened to some extent through Henry Wickham Steed's acquisition of *The Review of Reviews*, a journal which was thought to be subsidised by the Czechoslovak government. The veteran journal-

ist from the New Europe group produced an effective counter-blast to the anti-Czech sentiment of the previous year.¹⁰³ The new Labour government that took office at the beginning of 1924 also changed the outlook of Czechoslovak-British relations though its advent did not affect the views held by the Foreign Office establishment.

Beneš welcomed the accession of the MacDonald government 'as one of the most important political events that have taken place since the War,' which also 'mark[ed] a new epoch in the history of England.' In a rare display of his socialist colours, Beneš praised the political structure that allowed such a momentous change to take place peacefully:

For us and for all Europe there is a great lesson in the manner in which the British bourgeoisie and the British proletariat have brought about this change by their splendid political discipline, their consciousness, their calmness, their order and sense of true democracy.¹⁰⁴

This assessment, designed for his local audience without regard to the differences between the continental and the British labour movements, expressed Beneš's optimism that the change would lead to improved relations. The real test came for Beneš when MacDonald was called upon to pass judgment on the Geneva Protocol.¹⁰⁵ Even though Beneš complained to Cadogan about 'the difficulty which he had found in reconciling the views of M. Herriot and Mr. MacDonald,'¹⁰⁶ MacDonald appeared for a time to favour the proposals. However, no tangible progress was achieved before the Labour government left office in November 1924, and MacDonald even echoed the career diplomats when he remarked: 'Beneš is fond of treaties.'¹⁰⁷

3.9 BRITAIN, CZECHOSLOVAKIA AND THE CENTRAL EUROPEAN SYSTEM

At Austen Chamberlain's request, a detailed memorandum, titled 'Political Treaties, Agreements, Alliances and Relations at Present in Force in Central and South-East Europe Affecting the Question of Security' was

The memorandum attributed serious, and probably undue, importance to agreements which it regarded as 'extension[s] of the Little Entente.' Among these, the Treaty of Lana (Lány), signed near Prague on 16 December 1921, between Czechoslovakia and Austria deserves special comment in the context of British interests. In early 1922, Beneš had arranged for a £5 million loan to be raised for Austria on the London money markets. The treaty, together with the loan, marked the culmination point of Beneš's efforts to prove the viability of the Austrian state and thereby forestall the feared *Anschluss*. Shortly before the credit was raised in London, Lloyd George had taken a 'negative view toward an Austrian loan. He doubted that Austria could be saved.'¹¹¹ Masaryk, the Czechoslovak president, went, in the summer of 1922, so far as to offer a union of Czechoslovakia and Austria, resulting in 'common foreign policy, customs and monetary union and also an army uniformly equipped and able to work in cooperation.'¹¹² While Masaryk's plan died a natural death in diplomatic in-trays, Beneš's loan operation for Austria proved to be a great success.¹¹³ In early 1922, Beneš told Lockhart, the British Commercial Secretary in Prague, that he was 'prepared to do everything he can to improve the currency of all the neighbouring Succession States; [the] credits to Austria [were] only a part of a general plan to be applied to all the Succession States.'¹¹⁴ Why did Beneš, then, oppose the loan for Hungarian reconstruction? The answer must be sought in his hatred of Horthy's conservative-authoritarian régime, and that, by contrast, he had been quite capable of maintaining amicable relations with Karl Renner's socialist government in Austria. The two countries' different attitudes to territorial revision also played a part. Hungary only signed the peace treaty under duress; Renner had renounced all demands for Sudeten territories in Paris.¹¹⁵

While the treaty with Austria formed one of the pillars of Czechoslovakia's Central European policy, and the repeated approaches between Poland and the Czechs might have been described as attempts to 'extend' the Little Entente, 'the somewhat vaguely worded exchange of notes between Dr. Benes and Count Sforza' in February 1921 could not be considered as organic extensions of the core. When, on the occasion of the Italo-Czechoslovak Treaty of 1924, Beneš informed Mastný in London¹¹⁶ that his talks in Rome had to do with the containment of Hungary,¹¹⁷

Lampson minuted: 'All these treaties seem very unnecessary. If they mean anything it is in that the system of alliances continues to flourish: if they mean nothing, there is no need to sign them.' Crowe agreed.¹¹⁸ Whether the new European system should rest on collective security or old-fashioned alliances, remained an open question during the whole interwar period. Beneš straddled the fence.

3.10 BRITAIN, CZECHOSLOVAKIA AND EUROPEAN SECURITY

No study of Anglo-Czechoslovak relations is complete without a reference to the role that the Czechoslovak Foreign Minister played in trying to persuade the British of the need for a European security pact, the so-called Geneva Protocol, and his role, far more limited, in negotiating the Treaty of Locarno. The League of Nations and the atmosphere of Geneva seems to have been invented for a politician like Beneš, who believed that he had a historic mission and 'became a man of the League of Nations.'¹¹⁹ While privately both the Foreign Office and the Quai d'Orsay derided Beneš for his air of self-importance and assumed role as the model diplomat of the New Europe, it was undeniable that the Czechoslovak Foreign Minister was able to handle difficult problems when conventional attitudes might fail. The dictum: 'est pour Beneš' became current in the corridors of Paris and Geneva for issues that defied the career diplomats.¹²⁰ Six times chairman of the Council, once president, chairman of many committees, and rapporteur, he came to symbolise the concept of collective security, to which the organisation was dedicated. Following the Ruhr crisis, Beneš became convinced that 'only an entente between France and Germany can bring about international co-operation and assure lasting peace in Europe.'¹²¹ He began to work on his colleagues in London, Paris, Brussels, Berlin and Rome to forward this objective. It was Beneš, who, in September 1923, reconciled the various French and British proposals and drafted the Treaty of Mutual Assistance. A year later, when the League Assembly debated the question of Germany's admission to the League, Herriot, the French Prime Minister, partly to try to divert attention from the issue of admission, suggested

a formula for security-arbitration-disarmament.¹²² Beneš became rapporteur of a sub-committee appointed to study the plan, which, amalgamated with the Czechs' earlier ideas, resulted in the protocol for the Pacific Settlement of International Disputes, or, in short, Geneva Protocol. The protocol defined aggression as the failure to submit to arbitration or the failure to abide by the results of arbitration, and entailed the application of sanctions. The protocol received the unanimous approval of the League Assembly, but then began its long journey of debate and amendment in national parliaments and cabinets. The British had long been suspected of being the weakest link in the chain. MacDonald did not rule out adopting a formula based on the protocol, but with the demise of the Labour government at the end of 1924 this opportunity was lost. At a meeting held on 2 March 1925, the new Conservative cabinet rejected the protocol as being too far-reaching. In their view, it was better 'to supplement the Covenant by making special arrangements to meet special needs.'¹²³

By 1925, the many recent failures to embed the post-war settlement into a permanent and reassuring system in Europe prompted the politicians to work more closely together. In Zara Steiner's words: 'the multiple and often independent and unrelated strands of diplomacy' gave way to a new resolve, where 'these diverse threads started to pull together and lines of common development began to emerge.'¹²⁴

The British were aware that a simple rejection of the protocol would not do, and from January 1925 onwards had been searching for alternatives.¹²⁵ Harold Nicolson sharply observed in a memorandum that Germany might accept a series of non-aggression pacts, which would have some value although they would not carry permanent conviction until 'the dangerous injustices of the Silesian settlement, and the Polish Corridor have been, by mutual agreement, revised.'¹²⁶ Headlam-Morley, the historical adviser to the Foreign Office,¹²⁷ counselled that the gap could only be filled by the resurrection of the Concert system.¹²⁸ Chamberlain was 'much struck'¹²⁹ by this idea, but he proved even more resistant to the conclusions of the rest of Headlam-Morley's study, entitled 'The History of British Foreign Policy and the Geneva Protocol.' Headlam-Morley, the only professional expert on Central and Eastern Europe to remain on the staff of the Foreign Office, argued that 'the danger point

in Europe [because of the power vacuum in Central Europe] is not the Rhine, but the Vistula, not Alsace-Lorraine, but the Polish Corridor and Upper Silesia.' Any encroachment by Germany on the Eastern states, Headlam-Morley warned, would result in an accretion of strength by Germany which would be 'brought to bear on the Rhine.' If, 'under some improbable condition,' the historical adviser hypothesised, 'Austria rejoined Germany, [and] Germany, using the discontented minority in Bohemia, demanded a new frontier far over the mountains, including Carlsbad and Pilsen, and at the same time, in alliance with Germany, the Hungarians recovered the southern slopes of the Carpathians,' the British would 'be driven to interfere, probably too late.' To forestall such an eventuality, Headlam-Morley suggested that Chamberlain made a statement to assure the Eastern states that League support meant British support, and that Britain 'could not regard with equanimity the forcible overthrow of any of the new states.'

The Foreign Secretary's extensive minutes on Headlam-Morley's memorandum bore out his Western predilections. Drawing a 'far sharper distinction' than Headlam-Morley 'between the nature of our interests in the West and East of Europe,' Chamberlain declared that 'in Western Europe we are a partner' and 'in Eastern Europe our role should be rather that of a disinterested *amicus curiae*.' For Chamberlain, British security was 'in certain circumstances [...] bound up with that of France or Belgium or Holland [...] but not [...] with [that of] Roumania, for example.' The Foreign Secretary judged, with foresight, that not 'until Russia is herself again under whatever form of Government, [would] a serious war [...] break out east of Germany if peace is firmly secured on Germany's western boundaries...'¹³⁰ The Foreign Secretary's response constituted an abdication of British interest, albeit predominantly economic, in the fortunes of Central Europe. While Chamberlain has been described as a 'Europeanist among Imperialists,'¹³¹ his Europeanism did not embrace the lands east of Germany's borders.

By the time Chamberlain was commenting on Headlam-Morley's memorandum, he had been aware of Stresemann's offer of a pact to guarantee the *status quo* on the Rhine frontiers only, which was delivered to London 'under seal of secrecy, on 20 January 1925.'¹³² It has been suggested that the proposals, whose eventual acceptance constituted the Treaty

of Locarno, 'were the result of cooperation between Austen Chamberlain, Aristide Briand, and Gustav Stresemann, aided by Edouard Beneš,' partly because Beneš, believing that his country was not threatened, in order to break a deadlock, 'suggested to Briand the solution of replacing the French guarantee of the eastern arbitration treaties'¹³³ by a fairly impractical system of separate mutual-assistance treaties between France and her eastern allies. Chamberlain reported from Locarno that 'Monsieur Briand and Monsieur Benes are using all their influence to bring Poland into line,'¹³⁴ 'Benes travaillera le Polonnais' was the phrase used by Briand in Geneva.¹³⁵ Beneš had, as long as he could, resisted any effort to treat Germany's western and eastern borders differently.¹³⁶ Gradually, however, as the Germans tried to reassure him, Beneš changed his tactics. In late spring 1925, Stresemann sent an emissary to Prague, who told Beneš that the Germans objected even to the association of the term 'eastern frontiers' with Czechoslovakia in the context of the pact offer. According to the emissary, in contrast to the new German-Polish border, 'the Czechoslovak frontier [...] had been the same, with slight modification, for years.' The German diplomat told Beneš that 'he was empowered to [say] that there was no idea whatever of Germany seeking any change in the Czechoslovak frontier, but the German government had been reluctant to dot the "i's" too clearly by referring [in the draft treaty] to the Polish frontier alone.'¹³⁷ Though it is unlikely that Beneš was really convinced by such statements, he embraced the proposals as the only alternative to deadlock. As Beneš told Cadogan in December 1924: 'Avoid[ing] war in the West [meant that] Czechoslovakia would be safe.'¹³⁸

Beneš's commitment to a treaty at almost any cost did not mean that he privately did not harbour the most disconcerting doubts. On the same occasion, at the end of 1924, in Rome, he pointed out to Chamberlain his 'uneasiness and considerable disappointment' at the 'attitude adopted by the Conservative Government [...] towards the Geneva Protocol.'¹³⁹ Clerk later reported that '[t]here was a general disappointment in Czechoslovakia at [Britain's] stultifying the efforts to reach security through the Geneva Protocol.'¹⁴⁰ In conversation with the French premier, Edouard Herriot, Beneš said that '[a]ny new pact [...] should contain nothing [...] that would convey a thought that on the basis of the western pact Germany has a free hand in Central and Eastern Europe.'¹⁴¹

Beneš's personal role at the talks in Locarno was rather limited. He, like his Polish counterpart, Skrzyński, was only allowed to enter the negotiations on 15 October 1925. By that time, all the important decisions had already been made. When Skrzyński and Beneš attempted to introduce their drafts for the arbitration treaties, they were ignored. Arbitration, therefore, was applied to the territorial issues in the west, but not in the east. Afterwards, the French and Beneš tried to portray their newly concluded treaties of alliance as constituent elements of the Treaty of Locarno, but they both knew that it was technically not the case, and technicalities mattered in the diplomacy of the 1920s. The Anglo-French invitation for Germany, in the aftermath of the treaty, to enter the League of Nations, was clearly a victory for the Germans.

Concern caused by the failure to achieve a permanent settlement in Europe, and the need to improve the standing of the Czechoslovak case in London prompted the appointment of Jan Masaryk, the son of the president, as Czechoslovak Minister.¹⁴² In addition to foreign prestige, Beneš was also compelled by domestic exigencies to put the best possible gloss on the treaties. On 30 October, speaking before the Foreign Affairs Committee of the Czechoslovak Parliament two weeks before general elections in Czechoslovakia, Beneš called Locarno 'the fruition of seven years of Czechoslovak foreign policy,' which, being an effort in 'moral disarmament,' accomplished the 'suppression of war for decades.' In response to criticism, Beneš ascribed Czechoslovakia's exclusion from the guarantee pact to Britain's unwillingness to undertake commitments in Central Europe. In his words: '[I]t has always been the principle of Czechoslovak policy never to demand from others more than they can actually give.'¹⁴³

Beneš had understood, if only from the fact that Berlin had not approached its eastern neighbours about the arbitration proposals directly, but via the Western Powers,¹⁴⁴ that it was an essential feature of the German proposal that the western guarantee should not be extended to the east. At the same time, he believed, together with the British, that any intelligent new pact would signify a departure from the war psychology sustained by a Europe of victors and vanquished. In addition, he reckoned that Germany was engulfed in a struggle between democratic and authoritarian forces (as illustrated by the election of the reac-

tionary von Hindenburg as President in early 1925) which called for active support of the Weimar constitution. Beneš also hoped that a combined package of arbitration treaties with Germany, based on the existing treaties and submitted to the League of Nations, 'would, in a measure, bring us back to the Protocol.'¹⁴⁵ While aware of the intensity of the Polish aversion to the pact, Beneš 'th[ought] the Poles will loudly protest, but acquiesce.' In Clerk's paraphrase, he said that 'the explosion of [...] 65 million [...] Germans must be avoided.'¹⁴⁶ Lampson thought that 'Dr. Benes is determined to have his finger in every pie,' but conceded that 'his forecast of events in Germany is of interest.'¹⁴⁷

To provide a counterweight to the Locarno proposals, Beneš visited Warsaw in May 1925, and signed agreements there.¹⁴⁸ On the other hand, Beneš, 'speaking privately [to the American chargé] and not as a Minister of Foreign Affairs [...] admitted [...] that he did not believe in the permanence of the present Polish[-Soviet] frontiers.' The Czechoslovak Foreign Minister judged that a 'Russo-Polish conflict was by no means inconceivable and [...] in such an event Germany would request rectification from the League [which the British would support and Poland would have to] accede.'¹⁴⁹ Shortly afterwards, Beneš broke ranks with Poland by signalling his readiness to conclude a treaty of arbitration with Berlin. As Lewis Einstein, the American Minister in Prague, reported to the U.S. Secretary of State: 'By proceeding independently of Poland, Dr. Beneš has shown how lukewarm was the collaboration between the two states in spite of the many professions to the contrary and the recent conventions signed at Warsaw.'¹⁵⁰ Though, due to Stresemann's reluctance, no deal was struck, Beneš achieved some diplomatic edge over his Polish colleagues by the time of the negotiations at Locarno.

Beneš had never spent so much time in the company of a British Foreign Secretary as in the days of the preparatory talks leading to Locarno.¹⁵¹ While it is true that generally speaking he was opposed to any frontier revisions in Europe, as any change in the Versailles treaty might raise question marks over the Treaty of Trianon as well, he told Chamberlain unequivocally that 'it was Poland which was menaced and not Czechoslovakia.'¹⁵² On one occasion, Beneš even declared to Clerk that if he had been in charge of Poland's security, he would give up the corridor in return for a more guaranteed possession of the Polish part of

Upper Silesia.¹⁵³ On a lower level of diplomacy, when Charles Dodd, the First Secretary of the British Legation in Prague, asked the Secretary General of the Czechoslovak foreign ministry, Václav Girsá, whether the Czechs feared the consequences of Locarno, the official grasped one of the lapels of his coat and told Dodd that this question was comparable to asking him whether the jacket he was wearing really belonged to him. Implying that the Danzig Corridor was land that Poland held without real justification whereas Czechoslovakia did not possess such territory, the Secretary General said: 'Czechoslovakia ha[d] no borrowed coat and consequently is not nervous.'¹⁵⁴ However, when more seriously challenged by the British Minister in Prague about how the plan to conclude a treaty of arbitration between Czechoslovakia and Germany could be reconciled with the matter of the treatment of the German-Bohemians, Beneš answered evasively that 'the question [...] is not one that can come up for discussion at the Conference at Locarno.'¹⁵⁵ Few European diplomats shared Beneš's interpretation. Colville Barclay, concurring with his hosts in Budapest, characterised one of Beneš's statements on the talks leading to Locarno, i.e. that 'we have entered into an epoch of stabilisation of the peace treaties,' as 'bluff,' an utterance of a 'weak person [...] who pretend[s] not to be aware of unpleasant facts.'¹⁵⁶

Like Chamberlain, Beneš preferred to look at Locarno as a beginning, rather than a final chapter in European diplomacy. His statement to the American chargé d'affaires that 'in 20 years [Locarno] would constitute a danger' which could only be pre-empted by killing the spirit of revenge in Germany¹⁵⁷ amounted to an admission that the treaty lacked wider perspective. As Stresemann later put it: 'Beneš, that skilful politician, acted after he had not accomplished anything as if he had.'¹⁵⁸

3.11 CZECHOSLOVAK-POLISH DISPUTES AND THE BRITISH

While compromising both Poland's and Czechoslovakia's security, the Locarno agreement also exposed the long-standing disputes between the two countries. Poland, a predominantly Roman Catholic country with a great military tradition and an overwhelmingly agricultural economy as

well as sore wounds in its relations with both Russia and Germany could hardly synchronise its foreign policy with its southern neighbour which displayed a practically inverse picture in all of these respects. The governments of both countries desired French protection, but their strong sense of independence could not tolerate formal French tutelage. Poland's absorption into the Little Entente was not a realistic option.¹⁵⁹ Beneš would not have liked to see Czechoslovakia's leading role challenged in the alliance; there was little incentive for Poland to join a structure almost exclusively serving to prevent Hungarian revision, when its own relations with Hungary were quite satisfactory; Britain opposed Polish accession as the strengthening and formalisation of French influence in Central Europe; and, finally, the anti-Bolshevik and anti-Russian emphasis in Poland's foreign relations was irksome for most Czechoslovak politicians. As Sir William Max Müller, the British Minister in Warsaw put in 1924: '[Poland's and Czechoslovakia's] respective attitudes towards Russia [...] constitute the really fundamental difference between Polish and Czechoslovak policies, for while to Poland Russia will always remain an object of suspicion and fear, Czechoslovakia from her greater distance can look on Russia as a friend and even possible protector.'¹⁶⁰

The differences in interests and priorities in foreign relations first began to show at the time of the Russo-Polish war of 1920 when the Czech leaders opposed what they regarded as expansionism on the part of Piłsudski's Poland.¹⁶¹ In the question of the plebiscite organised for Upper Silesia by the League of Nations in 1921,¹⁶² the pattern which had emerged at the Peace Conference in this connection, i.e. British support for German claims and the French determination that Poland should acquire the economically lucrative parts of Upper Silesia, made it difficult for the Czechoslovak government to take a well-defined stand in support of the Polish case. At the end of January 1921, Beneš decided to make an unequivocal, if bland, statement in connection with the planned plebiscite. He told the Czechoslovak Parliament: 'In the spirit of our democratic policy we heartily desire that what is Slav remain Slav.'¹⁶³ When Polish irregular forces attempted to seize Upper Silesia, Beneš, fearing that the Poles might do the same in Teschen, found himself, not unusually, in an invidious position created by the contrasting responses of Britain

and France to a crisis. Defying Briand's powerful protests, Lloyd George advocated the use of German paramilitaries to stop the Polish incursion. Both Masaryk and Beneš went out of their way to prevent a total breakdown in Anglo-French relations, in which case Czechoslovakia would have to make a clear choice between its two main patrons.

The most obvious stumbling blocks in Czechoslovak-Polish relations were the territorial disputes. Czechoslovakia contained Polish minorities living in the Těšín, Javorina, Orava and Spiš regions. The resulting conflict with Poland was distinctly uncomfortable, as Poland was not a former enemy of Czechoslovakia defeated in the Great War. Of these disputes the problem with Teschen was the most sensitive. Having been one of the richest and most industrialised regions in Austria-Hungary, Teschen was claimed after the war by Poland on distant historical grounds and on account of the fact that 55 per cent of its pre-war population had been Polish. Czechoslovakia based its claims on historic and economic argument. In January 1919, Czechoslovakia occupied most of the territory, and this was fiercely resented by the Poles. Lewis Namier,¹⁶⁴ never a friend of the Poles, sympathised with the Czechoslovak case. Writing to Headlam-Morley shortly after the Czechoslovak action in early 1919, Namier dismissed the ethnographic argument in favour of Czechoslovakia's economic considerations:

On purely ethnic grounds the Poles are right that their Odenberg-Teschen line is ethnically due to them. But enormous economic interests of the Czecho-Slovak State are involved in that small strip of the country which probably does not contain more than 100,000 Poles [...] The Czechs, if they do not get the Karwin-Odenberg mines will have hardly any of it and will be left with the lignite mines of Brux-Dux, which are expected to become exhausted in 25–30 years.¹⁶⁵

More than a year later, on 28 July 1920, the Conference of Ambassadors divided Teschen along the Olza River, giving Poland the eastern districts, including the town of Cieszyn, while awarding to Czechoslovakia the larger part of the region, which included the coal-mining basin, an important railway line and a sizeable Polish minority. On the Czech side

of the Olza, a new town came to be built, called Český Těšín. Poland, facing at the time a Soviet-Russian military offensive, accepted this division, but remained dissatisfied.¹⁶⁶ It was difficult, if not impossible, to entrust the solution to outside arbitrators. The British, on the whole, did not have a clear preference either way, rather, like E. H. Carr, who visited the Teschen area in June 1920 on behalf of the New States Committee, they found the arcane controversies 'pure farce and a salutary warning to any who may still be tempted to take the new nations of central and eastern Europe too seriously.'¹⁶⁷

At one time, when the Javorina ('Jaworzyna' in Polish) dispute culminated, a detailed study was prepared in the Foreign Office with the co-operation of the Central and Northern departments with map supplements. Following Skirmunt's departure from the Polish foreign ministry in June 1922, with whom Beneš was more in tune than with his successor, Count Aleksander Skrzyński and amidst the nervousness of the aftermath of Genoa and Rapallo 'this question formerly so insignificant has become a really serious one.'¹⁶⁸ Stretches of the border between Poland and Czechoslovakia north and west of the mountain village of Javorina in Slovakia (numbering around 450 inhabitants) had not been finalised by the Conference of Ambassadors in July 1920. As the Foreign Office map explains, the border-line fell into two categories: 'A' one defined in detail, and 'B' 'not actually defined point by point [...]'¹⁶⁹ The Polish government were trying to put pressure on the Czechs to cede certain territories in the undefined area so that the Sejm could ratify the earlier Polish-Czechoslovak agreements. Simultaneously, the Poles also demanded sovereignty over Spiš and Orava, but privately hoped that at least Javorina would be granted to them. Unable to come to a satisfactory decision, Beneš requested the opinion of the Foreign Office.¹⁷⁰ However, the British (like the French) were anxious that 'neither Poland nor Czecho should be hurt' and Neville Butler at the Central Department advised that 'HMG should therefore not directly interfere.' But, as the legal solution, i.e. that the Conference of Ambassadors impose a settlement, was not desirable because Beneš threatened to resign in case of an unfavourable decision, the Foreign Office Finally ruled that a decision should be made, but not yet imposed, hoping passions would cool. This did not happen and the issue was brought up again and again.¹⁷¹



In December 1922, Clerk proposed that the Conference of Ambassadors should pronounce on the original frontiers treaty and allow negotiations as well. This was overruled in the Foreign Office; the countries were given until next spring to sort out their differences. On 10 March 1923, the Political Committee of the Polish Cabinet requested Skrzyński to ask for French support for the Polish case during his visit to Paris, where a conference was convened to settle the problem. At this conference, however, the Javorina dispute was only one of a complicated set of contested issues such as Polish demands for Vilna, Eastern Galicia and the whole question of the Polish-Russian border and the Treaty of Riga. Finally, a decision was made on 14 March 1923, signed by Eric Phipps for Britain, and Raymond Poincaré for France,¹⁷² which left the status of the Javorina district unchanged while granting concessions to Poland elsewhere. In February 1924, the so-called Commission of Delimitation also ruled in favour of the Czechs in the Javorina dispute.¹⁷³

The rivalry between Czechoslovakia and Poland was only exacerbated by diplomatic successes achieved by Beneš. Czechoslovakia gained a seat on the Council of the League of Nations while Poland failed to do

so in September 1923, and in January 1924, the Franco-Czechoslovak treaty, rather than strengthening Polish security, cast a shadow on it by raising the spectre of a Czech-sponsored reconciliation between Paris and Moscow. The nervousness in Poland at the time of the conclusion of the Franco-Czech agreement was known to the British from telegraphic intercepts of Polish dispatches from their Paris embassy. Reminding Warsaw that the French were 'under an obligation to notify us in advance of any new convention that may be concluded,' Zamoyski, the Polish Minister in Paris, reported to his Government that he feared 'the consolidation of the Franco-Czech military agreement.'¹⁷⁴

In the spring of 1925, Max Müller reported from Warsaw that Beneš had returned Skirmunt's visit to Prague of Nov. 1921.¹⁷⁵ The rapprochement originated in Beneš's tacit fear of the negotiations for a Western guarantee pact with Germany.¹⁷⁶ When Skrzyński asked Beneš how he viewed the 'German menace,' the Czechoslovak Foreign Minister answered that Czechoslovakia continued its policy of maintaining good relations with Germany, including the belief that Germany should be admitted into the League of Nations, but would join Poland if both their countries were threatened by outside danger. Despite the fact that no military agreement was signed and there were no territorial clauses in the treaties, Max Müller declared that Beneš's visit 'ends the chapter of enmity between Poland and Czecho which was dangerous for Central Europe.'¹⁷⁷ A few days later he informed the Foreign Office that Skrzyński had told him that neither the Germans nor the Russians welcomed the three treaties signed between Poland and Czechoslovakia, and that the Russians were especially resentful of the 'clause of the Commercial treaty which allows transit of war material destined for Poland through Czechoslovak territory.'¹⁷⁸ While there was no question of Poland's joining the Little Entente, the British papers began to write about a new 'Polish-Czech Entente,'¹⁷⁹ and expressed fears of the spread of French influence in Central Europe. When Clerk inquired whether the new agreements constituted a military alliance, Masaryk told him that Witos, the former Polish Prime Minister, who had recently been in Prague on a private visit, 'after considerable hedging,' declared to Švehla, the Czechoslovak Prime Minister, that 'the Poles would not really feel at ease until they had a military agreement or alliance with the Czechs.'

According to the Czechoslovak President, 'Svehla told [Witos] categorically that this was out of the question [and], that the Czechs have an ingrained distrust of the Polish appetite for military adventure.' Moreover, Witos was bluntly told that 'if it came to a fight between Poles and Russians, the Czechs would always be for the Russians.'¹⁸⁰

3.12 NEGATIVE CONTINGENCIES

The Foreign Office understood that the Western guarantee pact would not stabilise the situation on the eastern borders of Germany. A document, titled 'Memorandum on the Industrial Mobilization of Czechoslovakia in War,'¹⁸¹ set out for the British the catastrophic situation that would arise on the Czechoslovak front in the event of a war breaking out between Germany and France as 'the greater part of Csl. Industry, almost all the mines, are on the Csl-German frontier. Enemy troops, advancing 50 km. would either annihilate Csl. Industry or, which would be even more regrettable, enable it to be turned around to work for the enemy.' In addition, '[a]ll directing staffs and most of the workers of these mines and factories are of German blood and sentiment.' The French author also learnt that even if the installations were not conquered, the Czech authorities reckoned that, in the event of war, 'all the engineers [...] would have to be arrested and suppressed,' which would mean 'complete disorganization' as 'real Czechs would be neither sufficient in quantity or quality for one or two generations.' It did not help either that 'Csl. is dependent for all or most of the raw materials indispensable to [...] its industry.' The French report warned that the Western Allies, 'would only use Csl. productions to supply an army operating in Eastern Europe [...] we cannot think of transporting Csl. material towards our front.' The alternative, 'via Switzerland and the Aarlborg,' was 'diplomatically impossible,' by way of South Germany, 'would depend on the conquest of two provinces, by Poland and Danzig, or by Rumania, which last presupposes an impossible Hungarian neutrality,' said the report. Major Oldfield, the British military attaché in Prague, added that the report confirmed information reaching the British Legation that German companies had recently approached 'armament firms

of this country as to what war material of German pattern Csl. could produce in the event of a war, and in one case (Czechska–Moravska) the Germans had gone so far as to ask if the firm would be prepared to hold certain gauges.’ In this connection, Oldfield noted that General Mittelhauser, head of the French military mission in Prague, had dismissed General Kolárik, Chief of the Czechoslovak Air Force, because Kolárik’s policy was to equip the Czechoslovak army and the aeronautical industry exclusively with machines and engines of German pattern and had him replaced by General Stanislav Čeček who also retained his former post of chief of the President’s military cabinet. Oldfield also pointed out the close relations between the Czechoslovak aircraft industry and the Bayerische Motorwerke (BMW). The French informant drew the conclusion that Czechoslovakia’s co-belligerent status could not be taken for granted, and that the narrow scope for action and the dire consequences of hostilities required that contingency plans be prepared for the case of Czechoslovak neutrality or even hostility to France. The French also had to ‘prepare [for] the brutal but necessary measures of industrial destruction’ to prevent ‘this magnificent economic plant’ from falling into enemy hands. It was, however, deemed to be most likely that Czechoslovakia, barring an explicit treaty obligation to the contrary, would be neutral in the case of a Franco-German war if not attacked by Germany. Oldfield drew the conclusion that the French writer had not dared to spell out, i.e. that ‘any benevolence in [such] neutrality is likely to be in favour of the Germans,’ as ‘it will be materially impossible for us to prevent Csl. supplying Germany.’ For the case ‘if Csl. is against us [...], we could only affect her productivity by a blockade of raw materials,’ Oldfield wrote.

The study made explicit one of the gravest problems of the interwar years, i.e. that the map of the new Europe on the eastern borders of Germany only made sense as long as peace reigned. The French would have liked to win British guardianship of the system as it stood. The British reaction was to hope that Stresemann’s signature at Locarno signified a lasting intention on the part of the Germans to inaugurate a *détente* in Europe, which would also allow them to take care of their backyard in Central Europe. The French military memorandum illustrated the gap between the French and British degree of trust in Germany. No wonder that Lampson minuted: ‘I should be inclined to keep this to ourselves.’ He admitted that

in 'a future war, the position of Czecho-Slovakia would be unenviable. The Deutsch-Böhmen would naturally be pro-German, the Slovaks have to some extent been estranged by Czech methods of government.'¹⁸²

3.13 TRADE LINKS FRUSTRATED

In contrast to France's economic ties with Czechoslovakia, Britain's industry and commerce in no way complemented that of Central Europe's most industrialised country. Much to Clerk's regret, as he would have liked to see Prague become a focal point in Britain's widening sphere of economic interests in Central Europe,¹⁸³ he had to recognise that 'Czechoslovakia is, actually and still more potentially, a good customer for France; in our case, the Republic is a possible competitor.'¹⁸⁴ In 1921, Clerk argued that

France, Italy and the United States of America have definite inducements to offer in the way of raw materials and finished products which we either do not possess or are not prepared to offer, while our proposed legislation against countries with collapsed exchanges has, for the time being, destroyed the main prospect of direct advantage that the Czechs could hope to draw from close association with us.¹⁸⁵

Because of the very high rate of exchange, British goods were uncompetitive in Czechoslovakia, and this impediment was compounded by the Czechoslovak ban on luxury goods, which prevented the importation of special British products of distinct quality. Clerk found it 'difficult to see [...] how there will ever be a large market for British goods in a country which itself manufactures mainly for export.'

Clerk's doubts were soon vindicated as Czechoslovakia's export-oriented industry enjoyed a head start in comparison with many others on the post-war market. In spite of early British enthusiasm for the emerging dynamism of what was promising to be a new industrial democracy in the heart of Europe, Czech protectionist industrial and commercial practices made the majority of British entrepreneurs, who showed little enthusiasm for Central Europe in any case, weary of their losing battle to gain a foothold in Czechoslovakia.¹⁸⁶

When Czechoslovakia desired to settle pre-war and wartime debts towards the United Kingdom by the export of refined sugar (Lockhart explained that Gustav Heidler, the Czech government negotiator, was 'obsessed'¹⁸⁷ with the idea of selling the refined sugar to England), the answer from London was negative. The Czechs blamed the failure on the refiners of the British Sugar Commission who would have lost custom through the proposed deal. The Royal Commission on Sugar Supply judged that

the difficulty of Czecho-Slovakia in finding a market here for its white sugar must continue so long as only about one-fifth of our import consists of sugar in that form. On the other hand, were Czecho-Slovakia willing to supply Raw Beet Sugar, it would find a ready market for almost any quantity.¹⁸⁸

Whatever the reason for the British rejection, the incident shows that even in a seemingly adjustable commercial matter, the British and the Czechs could not see eye to eye. Even in more promising areas, clashes and lack of organisation on the British side led to deadlock. In late 1923, for instance, the City Council of Prague combined with the British Tully Gas Plant, and Kerr Stuart and Co. locomotive builders to erect a low temperature carbonisation plant for the Czech capital. The tender was submitted in competition with the West Gas Improvement Co. Ltd. of Manchester, represented by a John Sherwood, in conjunction with a French group. At the very last moment, a company owned by N. G. Thwaites, which secured the backing of the Foreign Office, intervened to procure the business for itself. The incident stirred up much disquiet, and Clerk warned his superiors of the dangers of 'giv[ing] 11th hour support to [a] latecomer, [as that m]ight help a third, outside, runner.'¹⁸⁹

When, in mid- and late 1924, *The Times* revived the debate about an effective customs union in Central Europe, and even advocated that British financiers make the granting of any further loans to Czechoslovakia dependent on Czech co-operation (including the acceptance of a foreign financial adviser in Prague to oversee Czechoslovak finances),¹⁹⁰ considered British opinion judged such an arrangement disad-

vantageous for British trade. Barclay, the British Minister in Budapest, argued that however attractive the scheme for economic preference in the Danubian countries might be from a purely political point of view, the participation of Czechoslovakia 'in particular, as the most progressive manufacturing unit amongst them, would be highly detrimental to British imports [...]' Czechoslovakia, Barclay reminded, 'is our rival in nearly every branch of industry. For instance, our relatively considerable import of textiles into Hungary would have to face the crushing competition of Czechoslovakia [...]'¹⁹¹ Richard Kimens, Commercial Secretary at Warsaw, complained of the handicaps that Czechoslovak exports to Poland imposed on British trade in that country.¹⁹² At the end of 1924, a series of D.O.T. reports concluded that '[a]s a manufacturer country Czechoslovakia competes with British manufacturers both in foreign markets and in our own home market.' Nicolson minuted the file: 'I have told the D.O.T. that *none* of the reports are to be published.'¹⁹³

Following the adoption of the Dawes Plan, the strengthening of the German economic output and the German mark hit Czechoslovak industry and trade. Some of Czechoslovakia's recently acquired markets, such as Greece and Spain, were quickly reabsorbed into the German trading sphere, and Austria, Hungary and Poland imposed impossible tariffs on Czechoslovak wares. The improved coherence in German internal politics resulted in a co-ordinated resistance within Germany against any further Czechoslovak exports into the western neighbour. The British had little to offer to remedy the Czechs' problem.¹⁹⁴ Trade contracted further, when, at the end of 1926, the Czechoslovak government imposed customs duty on 'motorcycles, red lead, tea and other British Empire exports into Czechoslovakia above a certain quota.'¹⁹⁵

NOTES

- 1 R. W. Seton-Watson, *A History of the Czechs and the Slovaks* (London: Hutchinson & Co. Ltd, 1943), pp. 160–312; Jan Rychlík, Thomas D. Marzik, Miroslav Bielik, eds. R. W. Seton-Watson and *His Relations with the Czechs and Slovaks, Documents 1906–1951* 2 vols, Prague and Martin (Slovakia): Ústav T. G. Masaryka, Matica Slovenská, 1995–96, pp. 21–29, 109–292. Wilfried Fest, *Peace or Partition, The Habsburg Monarchy and British Policy 1914–1918* (London: Prior, 1978).

- 2 Betty Miller Unterberger, *The United States, Revolutionary Russia, and the Rise of Czechoslovakia*, 2nd edition (Texas A & M University Press, 2000), p. 164, also quoting Edvard Beneš, *My War Memoirs* (London, 1928), p. 373–76.
- 3 Zbynek Zeman and Antonín Klimek, *The Life of Edvard Beneš 1884–1948, Czechoslovakia in Peace and War* (Oxford, 1997), p. 31.
- 4 Zbynek Zeman, *The Break-up of the Habsburg Empire 1914–1918* (London: Oxford University Press, 1961), p.215.
- 5 Paul E. Zinner, 'Czechoslovakia: The Diplomacy of Eduard Benes', in G. A. Craig, F. Gilbert, eds. *The Diplomats 1919–1939*, 1953 (1994), pp. 102–3.
- 6 The Foreign Office even deemed that the spelling of the new term in British political parlance should follow the slightly more established Polish orthography, hence 'Czecho-', rather than 'Čecho-' or possibly 'Checko-' Slovakia.
- 7 Zeman, *The Life of...*, p. 30.
- 8 On Lewis B Namier's background and his advice on the territorial settlement offered to Poland see part III, chapter 5, section 5.2.1.
- 9 Lewis B Namier, 'The Czecho-Slovak State', FO 371/4355–82, quoted in Paul Latawski, 'Lewis Namier and the Criteria of State-Building: The Construction of Czechoslovakia and Poland, 1915–1920' in Eva Schmidt-Hartmann and Stanley B. Winters, eds, *Großbritannien, die USA und die böhmischen Länder, 1848–1938*, 148–49.
- 10 Ibid.
- 11 Alfred Zimmermann, former member of the P.I.D., to J.W. Headlam-Morley, 23 April 1921, following Zimmermann's tour of Prague, Vienna, Budapest, Belgrade, Zagreb and Ljubljana. (Headlam-Morley papers, Churchill Archives, HDLM, [hereafter referred to as HDLM] ACC 727, Box 37.)
- 12 Headlam-Morley (historical adviser to the Foreign Office from 1920 to 1928; the post was not filled after his departure from office) to Eric Forbes Adam (Second Secretary to the Eastern Department of the Foreign Office), 6 April 1920, HDLM, ACC 727, Box 37.
- 13 Gosling was transferred to Prague from Gothenburg in late 1918.
- 14 Mark Cornwall, 'A fluctuating Barometer: British diplomatic views of the Czech-German Relationship in Czechoslovakia, 1918–1938', in Eva Schmidt-Hartmann and Stanley B. Winters, eds., *Großbritannien, die USA und die böhmischen Länder 1848–1938* (Munich: R. Oldenburg Verlag, 1991), p. 314.
- 15 R. H. Bruce Lockhart, , *Retreat From Glory* (London: Putnam, 1934), p. 52.
- 16 Gosling to Curzon, 26 March 1919 and 18 April 1919, FO 371/3525 and 14 May 1919, FO 371/3526.
- 17 Cornwall, *A fluctuating Barometer...*, p. 314.
- 18 Ibid, p. 314, quoting Clerk to Lampson, 15 September 1923, FO 371/8572.
- 19 Ibid.
- 20 Clerk declared that '[t]he Czech has the reputation [...] of being the best of the Slav races, the steadiest, the most progressive. [L]ong and subordinate associa-

tion with the German has developed these qualities, and added a respect for orderly administration and a sense of realities that have been of good service in the establishment of Czechoslovakia as an independent European State.' (Annual Report on Czechoslovakia for 1920, Clerk to Curzon, 14 July 1921, FO 371/5830/-C14612/14612/12.)

- 21 Minute by Nicolson, 19 September 1921. *Loc. cit.*
- 22 Jonathan Haslam, *The Vices of Integrity*, E. H. Carr, 1892–1982 (London: Verso, 1999), p. 29.
- 23 Haslam, *The Vices of...*, p. 34.
- 24 Carr to Headlam-Morley, 23 July 1920, HDLM ACC 727/37. On the Teschen conflict see section (II) 3.11 below.
- 25 Clerk to Curzon, 14 July 1921, FO 371/5830/C14612/14612/12.
- 26 Cornwall, 'A Fluctuating Barometer...', pp. 315–316. On the close details of British policy regarding the Czechoslovak treatment of the German minority, see Mark Cornwall's study in full, pp. 313–33.
- 27 Clerk to Curzon, 13 March 1922, FO 371/7392/C4106/4106/12.
- 28 See further in section (II) 4.4.
- 29 In the early 1920s, for instance, when differences arose between London and Paris regarding the ways in which Bolshevik Russia should be approached, Clerk reported that the '[National Democrat] press was bitterly opposed to British policy towards Russia and our dealings with the Soviet Government.' (Clerk to Curzon, 20 March 1921, FO 371/7392/C4106/4106/12.)
- 30 All those mentioned were members of the permanent coalition of the five main governing parties, the 'Pětka.' The 'Committee of Five' consisted of the Agrarians, the National Democrats, the Social Democrats, the National Socialists and the Populists. (Victor S. Mamatey, and Radomír Luža, eds. *A History of the Czechoslovak Republic 1918–1948* [Princeton: Princeton University Press, 1973], p. 108.) On one occasion, Clerk confirmed that '[e]verything centres in the Petka.' (Clerk to Chamberlain, 12 February 1925, FO 371/10679/C2285/2285/12)
- 31 Frank Hadler, 'The European Policy of Czechoslovakia on the Eve of the Genoa Conference of 1922', in Carole Fink, Axel Frohn and Jürgen Heideking, eds., *Genoa, Rapallo, and European Reconstruction in 1922* (Cambridge: Cambridge University Press, 1991), p. 172.
- 32 Carole Fink, *The Genoa Conference, European Diplomacy, 1921–1922* (Syracuse, New York: Syracuse University Press, [1984], 1993), pp. 107, 243, 247.
- 33 Hadler, *The European Policy of Czechoslovakia...*, p. 174.
- 34 Beneš even tried to invite the meeting to Prague, a move which he apparently later denied. (*Ibid*, p. 175.)
- 35 *Ibid*, p. 176.
- 36 Osuský to Beneš, 9 February 1922, Archiv Ministerstva Zahraničních Věcí (Czechoslovak Foreign Ministry Archive), quoted in Hadler, *The European Policy of Czechoslovakia...*, p. 178.

- 37 Head of the Commercial Department of the Quai d'Orsay, organiser of the preparatory work for Genoa.
- 38 Hadler, *The European Policy of Czechoslovakia...*, pp. 178–79.
- 39 The Genoa Conference was eventually convened for 9 April 1922.
- 40 Beneš also supported a Polish initiative, endorsed by Romania and Yugoslavia, which included the Poles together with the Little Entente in the preparatory phase of the conference.
- 41 Hadler, *The European Policy of Czechoslovakia...*, p. 181.
- 42 'Memorandum of a Meeting held at 10 Downing Street, London', in the presence of Lloyd George, Beneš and Hankey, 20 February 1922, *DBFP*, I/XIX, pp. 159–67.
- 43 Magda Ádám, 'The Genoa Conference and the Little Entente' in Fink, *Genoa, Rapallo...*, p. 194.
- 44 Fink, *The Genoa Conference*, p. 141.
- 45 Clerk to Curzon, 23 May 1922, *DBFP*, I/XXIV, doc. 69, p. 211, n. 2.
- 46 It was because of Beneš's intensive diplomatic activity that a Czechoslovak-Soviet trade agreement was concluded at the beginning of June 1922 without Prague granting either de facto or de jure recognition to the Soviet government. He even earned the compliment of Chicherin, the Soviet Commissar for Foreign Affairs, who described him as someone whose 'influence and stature was capable of achieving the political and economic rapprochement of Russia and Europe.' (Jaroslav Girsá [Head of the Czechoslovak Trade Mission to Moscow] to Beneš, 21 March 1922, Archiv Ministerstva Zahraničních Věcí [Czechoslovak Foreign Ministry Archive], quoted in Hadler, *The European Policy of Czechoslovakia...*, pp. 183–84.)
- 47 Czechoslovak minister in Berlin, Czechoslovak Prime Minister in 1920.
- 48 Hadler, *The European Policy of Czechoslovakia...*, pp. 183–84.
- 49 Fink, *The Genoa Conference*, p. 206.
- 50 *Ibid*, p. 256.
- 51 Zinner, *Czechoslovakia: The Diplomacy of Eduard Benes*, pp. 109–110.
- 52 *Documents d'archives...*, docs, 209–215, pp. 296–303; Ádám, *A kisantant...*, pp. 203–7.
- 53 Ádám, *A kisantant...*, pp. 205–6.
- 54 On one occasion, Cadogan commented on a file concerning Count Károlyi: 'He is one of those who have done the most to make "democracy" hated in Hungary.' Alban Young (Belgrade) to Curzon, 16 March 1922, FO 371/7632/C4079/3297/-21. Cadogan's minute, 21 March.
- 55 Clerk to Curzon, 20 October 1920, FO 371/4724/C9532/9532/12.
- 56 Hohler to Balfour, 18 June 1922, FO 371/7637/C9128/8750/21.
- 57 Hohler to Balfour, 16 June 1922, FO 371/7637/C8750/8750/21.
- 58 Hohler to Balfour, 18 June 1922, FO 371/7637/C9128/8750/21. Beneš probably felt free to talk to Bánffy in such terms because the Count, who later returned to

- his Transylvanian estate and accepted Romanian citizenship, had a reputation for holding relatively moderate views on territorial revision.
- 59 Akers-Douglas to Balfour, 23 June 1922, FO 371/7637/C9173/8750/21.
- 60 Clerk further suggested: 'I suspect that Dr. Beneš deliberately voiced some of the satisfaction felt [...] in fairly confident hope that an "indiscretion" would give his words of encouragement publicity in Hungary itself.'
- 61 Clerk to Balfour, 23 June 1922, FO 371/7637/C9446/8750/21, Barber's minute, 3 July 1922.
- 62 FO 371/7394/C11436/11436/12, SIS no. 808, A.2., M.P/48 Czechoslovakia.
- 63 Cadogan's minute, 11 August 1922.
- 64 For more details of the visit, see section 3.7 below.
- 65 Yeshayahu Jelinek, 'Thomas G. Masaryk and the British Foreign Office', in Schmidt-Hartmann and Winters, *Großbritannien, die USA und die böhmischen Länder, 1848–1938*, pp. 278–79. This study also describes the cooling of the British enthusiasm towards Masaryk by the early 1930s. In 1931, when Masaryk was to receive an honorary degree at the University of London, which had a Masaryk Chair, the Central Department advised that 'a visit to England avowedly to receive a Degree would soon be swamped, and become a State visit by the Head of a State' and that they did 'not at all want Professor Masaryk over here in this capacity at present.' The degree would have to be conferred '*in absentia*'. (The FO Librarian Stephen Gaselee to the Rev. J. A. Douglas, 16 January 1931, FO 371/-15178/C394/394/12.)
- 66 Clerk to Chamberlain, 31 December 1924, FO 371/10674/C256/256/12.
- 67 Lampson's minute, 9 January 1925, emphasis in the original.
- 68 Chamberlain's minute, 10 January 1925.
- 69 Lampson's second minute, 12 January 1925, emphasis in the original.
- 70 Clerk to Chamberlain, 11 June 1925, FO 371/10674/C8043/256/12.
- 71 Nicolson's and Lampson's minutes, 17 June 1925, *loc. cit.*
- 72 Beak to Curzon, 12 November 1920, FO 371/4724/C11325/11325/12. Oliphant to Clerk, 19 November.
- 73 Replacing Captain Henry Cartwright, Smallbones was transferred to Slovakia from previous service in Luanda in Portuguese Angola, Stavanger in Norway and Munich in July 1922, and stayed in Bratislava until January 1926.
- 74 Smallbones quipped that 'Slovakia, on the map, looks like a lemon sole; on the lines of nationality it would be more like a red herring.'
- 75 Annual Report on Czechoslovakia for 1922, Clerk to Curzon, 29 March 1923, FO 371/8584/C5951/5951/12, pp. 13–14.
- 76 R. W. Seton-Watson, *The New Slovakia* (Prague: Fr. Borový, 1924), pp. 19, 27, 30, 93–94, 96; Hugh and Christopher Seton-Watson, *The Making Of A New Europe*, R. W. Seton-Watson and the Last Years of Austria-Hungary (London: Methuen, 1981), p. 420.
- 77 Smallbones to Clerk, Clerk to MacDonald, 6 March 1924, FO 371/9678/C4053/-4053/12.

- 78 FO 371/8582/C20041/2332/12, Butler's minute, 26 November 1923.
- 79 The Czechs' first attempt to silence Smallbones turned out to be a fiasco. The British uncovered a Czech spy within the consulate in Bratislava, who manufactured stories against Smallbones. One such story was that Smallbones acted in collusion with the Countess Lujza Esterházy, who conspired against the Czechoslovak state. The story could easily be discounted. Peterson to Curzon, 4 January 1924, FO 371/9675/C355/355/12.
- 80 Clerk to Chamberlain, 12 February 1925, FO 371/10679/C2285/2285/12.
- 81 Clerk to Chamberlain, 2 January 1925, FO 371/10675/C258/258/12.
- 82 Howard Smith's minute, 8 January 1925.
- 83 The Treaty of Trianon, unlike the Treaty of St Germain, did not mention habitual residence as qualification. (Smallbones to Clerk, Clerk to Chamberlain, 12 February 1925, FO 371/10679/C2285/2285/12.)
- 84 Smallbones to Clerk, Clerk to MacDonald, 6 March 1924, FO 371/9678/C4053/-4053/12.
- 85 Hohler to Curzon, 13 April 1923, FO 371/8872/C6810/6810/21.
- 86 Barclay to Chamberlain, 25 March 1925, FO 371/10778/C4508/4508/21.
- 87 Barclay to Chamberlain, 14 April 1926, FO 371/11373/C4728/4728/21.
- 88 In that year, Hungarian was permitted to be used to address local authorities in Nitra County, and government 'approval [was] granted to the Magyar Minority to found a "Hungarian League of Nations Union for the Czechoslovak Republic."' (Dowden to Clerk, Clerk to Chamberlain, 8 March 1926, FO 371/11232/C3321/-3321/12.)
- 89 Lieut.-Col. C. À Court Repington, *After the War, A Diary* (London: Constable and Company, Ltd, 1922), p. 131. For details of the Karlist coups, see section (I) 1.4.
- 90 Gerald James Protheroe, 'Watching and Observing: Sir George Clerk in Central Europe, 1919-1926', unpublished PhD dissertation, London School of Economics, 1999, p. 286.
- 91 Ádám, *A kisantant...*, p. 162.
- 92 Ádám, *A kisantant...*, pp. 161-67.
- 93 Crewe to Curzon, 27 December 1923, FO 371/8583/C22432/2597/12, initialled by Sir Eyre Crowe. The document, without minutes, is also printed in *DBFP* I/XXIV, doc. 609, p. 932. Butler's minute, 2 January 1924.
- 94 Nicolson's minute, 2 January 1924.
- 95 Quoted in Ádám, *A kisantant...*, p. 164.
- 96 FO 371/9678/C4053/4053/12, p. 11.
- 97 The origin of this treaty was stated by Beneš to have been the discovery that German-Bohemians were planning to start the construction of aircraft in Czechoslovakia for German commercial orders. This was also found to be detrimental to British commercial interests by the British Air Ministry. (Clerk to Curzon, 6 March 1924, FO 371/9678/C4053/4053/12.)
- 98 Lampson's minute, 2 January 1924, FO 371/8583/C22432/2597/12.

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- 99 Curzon to Clerk, 16 January 1924, FO 371/9673/C882/41/12. Also, without minutes, in *DBFP*, I/XXVI, doc. 23, pp. 38–41.
- 100 The deputy chief of the Czechoslovak General Staff was now the Czech General Jan Syrový, a veteran of the Czechoslovak Legion in Siberia, and a Czech officer was put in charge of the War School, replacing a French officer.
- 101 Clerk to Curzon, 6 March 1924, FO 371/9678/C4053/4053/12, p. 14.
- 102 For full treatment of the subject, see section (I) 2.3.4.
- 103 Clerk to Chamberlain, 12 February 1925, FO 371/10679/C2285/2285/12, pp. 6–7.
- 104 Eduard Beneš, *Five Years of Czechoslovak Foreign Policy*, (Speech made before the foreign affairs committee of the Czechoslovak Parliament), (Prague: Orbis Publishing Company, 1924), p. 36, FO 371/9676/C7505/909/12.
- 105 See section (II) 3.10.
- 106 Conversation with Beneš in Rome, 11 December 1924, FO 371/9676/W10866/-134/98.
- 107 Clerk to MacDonald, 5 June 1924, FO 371/9680/C9253/8107/12. MacDonald's minute, 15 June.
- 108 Transferred to the Foreign Office from Santiago on 26 January 1924.
- 109 Memorandum by Bateman, 20 January 1925, FO 371/10698/C982/982/62. See diagram on p. 179.
- 110 The Little Entente had not been constituted into a unified tripartite structure until 1929. (Ádám, *A kisantant...*, pp. 267–69.)
- 111 Jan Masaryk to Beneš, 1 February 1922, Archiv Ministerstva Zahraničních Věcí (Czechoslovak Foreign Ministry Archive), quoted in Frank Hadler, 'The European Policy of Czechoslovakia...', p. 176.
- 112 Zygmunt J. Gasiorowski, 'Czechoslovakia and the Austrian Question, 1918–1928.' *Südost-Forschungen* vol. 16 (1957), p. 111.
- 113 The German Minister in Vienna disdainfully reported to Berlin that 'the well-behaved Austrian child has received a *Zuckertüte* from its godfather [...] because it has obediently shaken hands with its sister, Czechoslovakia, instead of reaching for mother Germania's apron.' (Pfeiffer to Rathenau, 14 February 1922, Zentrales Staatsarchiv, Potsdam, quoted in Hadler, *The European Policy...*, p. 177.
- 114 Clerk to Curzon, 5 January 1922, FO 371/7384/C389/386/12.
- 115 Although Beneš's attitude toughened towards the Sudeten Germans, his doctoral dissertation, submitted in 1908, made a special point of the necessity to make the Germans of Bohemia feel at home in a future homeland for the western Slavs of Central Europe.
- 116 Dr. Vojtěch Mastný, Czechoslovak Minister in London from 6 November 1920.
- 117 Beneš to Mastný, 18 May 1924, FO 371/9680/C8573/8107/12.
- 118 Minutes by Lampson and Crowe, 14 June 1924, FO 371/9680/C9253/8107/12.
- 119 Mamaty and Luža, *A History...*, p. 224.
- 120 Magda Ádám and Josef Hanzal, *Edvard Beneš, Arcképek kettős tükrében* [Edvard Beneš, Portraits in a Double Mirror]. (NAP Publishers, Dunajská Streda, 1996), p. 131.

- 121 Piotr S. Wandycz, *France and her Eastern Allies, 1919–1925: French-Czechoslovak-Polish Relations from the Paris Peace Conference to Locarno* (Minnesota, 1962), p. 274.
- 122 Gregory Campbell, *Confrontation in Central Europe, Weimar Germany and Czechoslovakia* (Chicago, 1975), p. 137.
- 123 Cabinet minutes for 2 and 4 March 1925, C12(25), C14(25), CAB 23/49. Also see Richard S. Grayson, *Austen Chamberlain and the Commitment to Europe, British Foreign Policy, 1924–29* (London: Frank Cass, 1997), p. 48.
- 124 Zara Steiner, *The Lights That Failed: European International Relations 1919–1933*. Series title: *The Oxford History of Modern Europe*, (Oxford: Oxford University Press, 2005), p. 387.
- 125 Richard S. Grayson, *Austen Chamberlain...*, pp. 37–41.
- 126 Nicolson's Memorandum, 23 January 1925, FO 371/11065/W2035/9/98.
- 127 See note no. 10 in this chapter.
- 128 Headlam-Morley's memorandum, 12 February 1925, FO 371/11064/W1252/9/98.
- 129 *Loc. cit.*
- 130 Chamberlain's minute, 21 February 1925, *Loc. cit.*
- 131 Jon Jacobson (University of California, Irvine), 'The Problem of Lasting Peace in Europe: Locarno after Seventy-Five Years', lecture at the 'Reinventing Peace 1920–1929' conference to mark the 75th anniversary of the Treaty of Locarno, Bolton Institute, Bolton (UK), 12–14 July 2000.
- 132 Anna M. Cienciala and Titus Komarnicki, *From Versailles to Locarno, Keys to Polish Foreign Policy, 1919–25* (Lawrence: University of Kansas, 1984), p. 236.
- 133 Cienciala and Komarnicki, *From Versailles to Locarno*, pp. 274–75.
- 134 Chamberlain to the Foreign Office, 12 October 1925, FO 371/10741/C12899/-459/18.
- 135 Cadogan's minute, 16 April on Clerk to Chamberlain, 8 April 1925, FO 371/-10674/C5120/256/12.
- 136 Radko Brach, 'Locarno a Čs. Diplomacie.' *Československý Časopis Historický* 8, (1960), pp. 694–95, quoted in Campbell, *Confrontation in Central Europe*, p. 143.
- 137 Clerk to Chamberlain, 11 June 1925, FO 371/10764/C8043/256/12.
- 138 Conversation with Beneš in Rome, 11 December 1924, FO 371/9676/W10866/-134/98; 371/9676/C19104/909/12.
- 139 Annual Report on Czechoslovakia, 1924, Clerk to Chamberlain, 12 February 1925, FO 371/10679/C2285/2285/12.
- 140 Annual Report on Czechoslovakia, 1925, Clerk to Chamberlain, 8 March 1926, FO 371/11232/C3321/3321/12.
- 141 Conversation on 16 March 1925, quoted in Edouard Herriot, *Jadis, II, D'une guerre à l'autre, 1914–1936*, (Paris, 1952), in Zygmunt J. Gasiorowski, 'Benes and Locarno: Some Unpublished Documents.' *The Review of Politics* 20, (1958): , p. 211.
- 142 Jan Masaryk replaced Dr. Vojtěch Mastný who had served in London since he had succeeded Štefan Osuský in 1920. Mastný was transferred to Berlin, where he proved prone to side with right-wing opinion.

- 143 *Prager Presse*, 23 June 1925, quoted in Campbell, *Confrontation in Central Europe*, p. 149.
- 144 Gasiorowski, *Beneš and Locarno...*, p. 212.
- 145 Herriot, *Jadis...*, pp. 189–90; Edvard Benes, *The Diplomatic Struggle for European Security and the Stabilization of Peace* (Prague, 1925), reprinted in *International Conciliation*, no. 212, (September 1925); pp. 236–38, quoted in Gasiorowski, *Beneš and Locarno...*, pp. 211–12, 214.
- 146 Clerk to Chamberlain, 8 April 1925, FO 371/10674/C5120/256/12.
- 147 Lampson's minute, 14 April 1925, *loc. cit.*
- 148 See section (II) 3.11.
- 149 Frederick F. A. Pierson to Kellogg, 3 April 1925, U.S. Department of State files, National Archives (DSNA), Washington, D.C., file 740.0011 Mutual Guarantee (Locarno)/34, quoted in Gasiorowski, *Beneš and Locarno...*, p. 215.
- 150 Einstein to Kellogg, 22 September 1925, in Gasiorowski, *Beneš and Locarno*, p. 220.
- 151 Clerk to Chamberlain, 8 March 1926, FO 371/11232/C3321/3321/12.
- 152 Chamberlain to Crowe, 12 March 1925, FO 371/10728/C3726/459/18.
- 153 Clerk to Chamberlain, 8 April 1925, FO 371/10674/C5120/256/12.
- 154 Dodd to Chamberlain, 13 March 1925, FO 371/10729/C3851/459/18.
- 155 Clerk to Chamberlain, 8 October 1925, FO 371/10679/C12875/2287/12. Both Beneš and Clerk were aware that this was a false escape, and that, in determining the range of subjects for arbitration, the German negotiators were more than likely to dwell on the grievances of the *Deutsch-Böhmisch* minority. As Clerk further reported: 'the German Government maintains in the Foreign Office a "Kultur" section which deals exclusively with the affairs of German minorities in foreign countries. (M. Victor von Heeren, the recently appointed counsellor at the German Legation in Prague tells me that he came here from that section.)'
- 156 Barclay to Chamberlain, 3 April 1925, FO 371/10778/C4851/4851/21.
- 157 Pierson to Kellogg, 3 April 1925, quoted in Gasiorowski, *Beneš and Locarno*, pp. 215–17.
- 158 Gustav Stresemann, *Vermächtnis*, Henry Bernhard ed..., Ullstein, Berlin, 1932–33, vol. 2, p. 234, quoted in Campbell, *Confrontation in Central Europe*, p. 153.
- 159 The question of this step was discussed at various junctures, as during the run-up to Genoa (Fink, *The Genoa Conference*, pp. 110–11.) and at the time of the Ruhr crisis, until the attempts at accession were abandoned by the Poles at the end of 1923, (Annual Report on Poland for 1924, Max Müller to Chamberlain, 5 August 1925, FO 371/11005/N4484/4484/55, p. 4.), but at no point did the talks go beyond the stage of speculation.
- 160 Max Müller to MacDonald, 1 July 1924, FO 371/10461/N5630/5630/55.
- 161 Protheroe, *Watching and Observing*, p. 285.
- 162 For further details of the plebiscite, see section (III) 5.2.3.
- 163 Beneš, *Five Years of Czechoslovak Foreign Policy*, FO 371/9676/C7505/909/12.
- 164 On Namier see part III, chapter 5, section 5.2.1.

- 165 Namier to Headlam-Morley, 1 February 1919, Headlam-Morley Papers, ACC688, quoted in Paul Latawski, *Lewis Namier and the Criteria of State-Building*, p. 149.
- 166 At the time of the unravelling of the Central European system, during the Munich crisis in 1938, Poland took advantage of Czechoslovakia's weakened position. On 29 September 1938, it demanded the cession of the rest of Teschen. Poland occupied the whole region in early October 1938. During the Second World War, the territory was annexed by Germany. After the Second World War, Poland tried to hold on to the whole of the district. The Soviet Red Army intervened, however, and restored the border prevailing between 1920 and 1938.
- 167 Carr's notes from 12 June 1920, quoted in Haslam, *The Vices of...*, p. 29.
- 168 John F. A. Cecil (First Secretary at Prague) to Curzon, 26 October 1922, FO 371/-7393/C14748/6236/12.
- 169 Red lines signify territory claimed by Poland. The map supplement see p. 191, is part of FO 371/7393/C14921/6236/12.
- 170 Clerk to Hardinge, 7 October 1922, alluded to in FO 371/7393/C14748/6236/12.
- 171 E.g. Clerk to Curzon, 7 December 1922, FO 371/7393/C16952/6236/12.
- 172 Cienciala and Komarnicki, *From Versailles to Locarno*, pp. 219–20.
- 173 Wandycz, *France and Her Eastern Allies*, pp. 276–91, 310, and FO 371/9673/-C118-C603/118/12.
- 174 'Most Secret,' Zamoyski (Paris) to Skirmunt, 18 October 1923, HW 12/51 no. 014548/287.
- 175 Max Müller to Chamberlain, 28 April 1925, FO 371/10675/C5939/257/12.
- 176 The thaw had already started towards the end of 1924, when Beneš admitted to the Polish socialist leader Mieczysław Niedziałkowski and the Speaker of the Polish Sejm Maciej Rataj (who remained sceptical) that in case of a German move to recover the Corridor Czechoslovakia would be directly threatened, and would thus regard such an act as *casus belli*. (Maciej Rataj, *Pamiętniki*, edited by Jan Debski, Warsaw, 1965, p. 237, quoted in Cienciala and Komarnicki, *From Versailles to Locarno*, pp. 226–27.)
- 177 A commercial treaty, a treaty of arbitration and compulsory conciliation were signed on 23 April 1925. A liquidation agreement was also concluded whereby the position of mutual minorities were defined and financial and other controversies arising out of the Treaty of St Germain were regulated.
- 178 Max Müller to Chamberlain, 30 April 1925, FO 371/10675/C5978/257/12.
- 179 *The Times*, 3 May 1925. (Similar articles in *The Observer*, 3 May and *The Daily Telegraph*, 4 May.)
- 180 Clerk to Chamberlain, 11 June 1925, FO 371/10674/C8043/256/12. Beneš also emphatically denied the rumours of a military alliance. (Clerk to Chamberlain, 23 June 1925, FO 371/10675/C8400/257/12.)
- 181 Major Richard W. Oldfield, British military attaché at Prague, to Parry Jones, War Office, London, 8 March 1925, Jones to John M. Troutbeck, Second Secretary of

the Central Department, Foreign Office, copies to M.I.3.b., Military Intelligence, FO 371/10679/C4053/3525/12.

- 182 The file was initialised by Crowe and Cadogan without comments.
- 183 Protheroe, 'Watching and Observing', p. 285. A letter from J. & P. Coats Ltd illustrated this early optimism: 'Having a preponderating interest in a Thread Manufacturing Company in the town of Pressburg – henceforth, we understand, to be officially known as Bratislava – the question of the ultimate nationality of that town is of great importance to us [...] If it is still an open question [...] we desire respectfully to urge that it be allocated to Czecho-Slovakia, as we feel that our interests will be better protected under that friendly Power.' (Joint Secretary of J & P Coats, Glasgow to Balfour, 20 February 1919, FO 608/18/3447).
- 184 Clerk to Curzon, 14 July 1921, FO 371/5830/C14612/14612/12. The rich composition and sustained level of Czechoslovak industrial exports through the 1920s and 1930s (of textiles, sugar, glass products, oil derivatives, machinery, leather products, chemicals, paper products, and timber) are documented in Mamatey and Luža, *A History...*, p. 194.
- 185 Clerk to Curzon, 14 July 1921, FO 371/5830/C14612/14612/12.
- 186 On one occasion, Julius Lesser of Manchester, exporter of cotton yarn and cloth, complained to the Foreign Office that his '16,500 crowns of credit in the Bohemian Union Bank [...] was liable to be taxed.' Lancelot Oliphant, a member of the Central Department, tried to recoup Lesser's money through intercession by Clerk, but failed. (Oliphant to Clerk, 15 November 1920, FO 371/4724/C10280/10280/12.)
- 187 'The Czecho-Slovak Sugar Crop', memorandum by Lockhart, in Clerk to Curzon, 28 December 1920, FO 371/4724/C14839/9530/12.
- 188 'Czecho-Slovakian Exports of Sugar to the United Kingdom', memorandum, 4 November 1920, FO 371/4724/C14838/9530/12.
- 189 Clerk to Curzon, 7 December 1923, FO 371/8585/C21483/21334/12.
- 190 *The Times*, 9 November 1924.
- 191 Barclay to Chamberlain, 29 January 1925, FO 371/10689/C1586/1586/62, also in *DBFP* I/XXVII, doc 27, pp. 54–56.
- 192 Annual Economic Report on Poland for 1920, Kimens to D.O.T., March 1921, FO 371/6838/N7125/4490/55. (Kimens also supplied monthly economic report to the D.O.T.)
- 193 D.O.T. to Foreign Office, 22 December 1924, FO 371/9678/C19206/4053/12, Nicolson's minute, 31 December, underlining in the original.
- 194 BoE OV112/1, fol. 66.
- 195 Charles Dodd, First Secretary at Prague, to Chamberlain, 30 December 1926, FO 371/11228/C84/84/12.

CHAPTER 4

Britain, Czechoslovakia and the Politics of Finance

4.1 EARLY STABILITY

For the new Czechoslovak state, the Austro-Hungarian financial inheritance was a menace, with which its leaders dealt promptly and efficiently. In the immediate aftermath of the war, the value of money had fallen to about one-fourth of its pre-war level, and the whole system of economic figures was adapted to this new scale.

The most urgent task was to prevent run-away inflation, and to make sure that the country's considerable economic assets were used judiciously in the interest of avoiding the fate of neighbouring countries, where money was printed more or less freely to meet budget deficits. That these aims could be achieved successfully was to no small degree due to the adept policy of the first Minister of Finance, Alois Rašín, also one of the most influential members of the National Democratic Party.¹ In Robert Bruce Lockhart's words, Rašín 'stood out among the Finance Ministers of Central Europe like a giant in Lilliput.'² Despite his conservative credentials, because of his palpable successes, Rašín was given a second term as Minister of Finance, following a short spell by Karel Engliš.³ As a monetarist, Rašín was not immune to the current lure of the restoration of pre-war exchange rates, associating the prestige of a country with the closest possible approximation to the old parities.⁴ In the early months of 1919, Rašín ordered the separation of the banknotes circulating in the territory of Czechoslovakia from those in the other parts of the former Austria-Hungary by over stamping them. This so-called nostrification was necessary because it was not possible at the time to have new notes printed at short notice.⁵ Czechoslovakia, where nostrification took place from 3 to 9 March 1919, was the first to introduce and complete this procedure which was eventually carried out in all the successor states.⁶ A new monetary unit, the Czechoslovak crown, was

declared and defined as being equivalent to the pre-war Austro-Hungarian crown depreciated to a level that could be maintained at any given time, i.e. it was a currency with a floating exchange rate. By withholding, as a forced loan, 50 per cent of the banknotes presented by the holders above a certain minimum, and half of the private accounts at the branch offices of the Austro-Hungarian Bank, Rašín contracted the volume of banknotes in circulation by about 20 per cent.⁷

One of the undoubted beneficiaries of the nostrification process was the Živnostenska Banka, the bank of Rašín and other prominent members of the National Democratic Party, which 'experienced phenomenal growth,'⁸ through the process.⁹ Encouraged by the high exchange rate of the crown at the close of the hostilities, and the permanently low level of wages, as well as counting on the changeability of prices, Rašín's original plan was to reduce the money supply by 80 per cent, and restore the pre-war parity of the crown with the support of a dollar loan. The Finance Minister had to abandon this ambitious plan, however, because of strong opposition in parliament, and because it was impossible at that stage to obtain a loan either in Europe or the United States. The reforms, however, created a degree of confidence in the government's ability to proceed with a programme for recovery, and were certainly a sign that in the area of monetary stabilisation, Czechoslovakia could rely on its own facilities to a greater degree than any other new formation in the region. By 1921, the country made a spectacular economic recovery, industrial employment soon returned to pre-war levels. The essentially socialist government introduced an eight-hour working day, land reform, unemployment benefit, education measures, and rises in government salaries. Significantly, the balance of trade showed considerable export surplus.¹⁰ The government tackled inflation by borrowing from individuals and financial institutions, and had the securities resulting from these transactions rediscounted at the Banking Office of the Ministry of Finance,¹¹ which, while a branch of the government, acted for all intents and purposes as a central bank.¹² The crown temporarily stabilised at around 8 centimes to the Swiss franc, and liberal Czech economists advocated stabilisation at this rate. It was said that the Czechoslovak crown had become one of the world's most stable currencies.

4.2 FINANCE IN INTERNAL AND EXTERNAL POLITICS

When, in early 1922, the Czechoslovak crown became a refuge for funds fleeing the financial devastation of the neighbouring states, Rašín looked approvingly on the resulting very high rates of exchange for the crown, reaching levels of 16 centimes to the Swiss franc. In clinging to the idea of climbing towards higher exchange rates,¹³ Rašín differed from the wisdom advocated by Ralph Hawtrey at the British Treasury, who argued that stabilisation must be achieved at existing depreciated levels.¹⁴ In Rašín's view, this was good for the hyper-inflated currencies, but not for the healthy Czechoslovak economy. To pursue higher rates, he was ready to use the foreign exchange reserves accumulated by the Banking Office, and this was the time when he felt necessary to have recourse to a foreign loan. As all wages and prices had to be adjusted downward, these endeavours resulted in a deflationary crisis. Bank failures, bankruptcies and unemployment followed, which took away the sheen of the immediate post-war successes. A government-sponsored communiqué later admitted that there had been a 'deflation crisis,' which had forced the government to 'abandon, [...] after the experiences of 1922–24,' the idea of further deflation.¹⁵ Eventually, from mid-1923, the exchange rate of the Czechoslovak crown rested at 15.3 Swiss centimes, and 2.9650 U.S. cents, which was too high to benefit exports.¹⁶

In addition to the financial considerations which lay behind the deflationary period, there was also a political motive. As Beneš explained in early 1922 to Bruce Lockhart, the British commercial attaché, the chief objective in maintaining the high exchange rate of the Czechoslovak crown was to separate it 'definitively and finally from the German mark.' At the time, at least 40 to 50 per cent of the foreign trade of Czechoslovakia was still transacted with Germany and Beneš expressed the wish to reduce that figure to at most 25 per cent. 'As long as the mark and the Czech krone have approximately the same value,' Beneš declared, 'it is impossible to force even patriotic Czechs to refrain from exporting goods or raw materials to Germany and to abandon markets to which they have been accustomed all their lives.' Czechoslovakia asked the West to force Germany 'to pay such reparations as will [...]

ensure the mark being kept at as low a level as possible [until] Czechoslovakia will be firmly established.'¹⁷ Lockhart replied that Czechoslovakia could not avoid German competition¹⁸ that the British government was not prepared to co-operate with Prague in trying 'to keep the mark in a state of perpetual depreciation.'

Economic factors commended the Czechs more immediately to the French than to the British. During the first months of the existence of the republic, the Czech commercial banks obtained capital from Dutch, French, Italian, Belgian and U.S. lenders.¹⁹ Prague bankers approached Paris before London. Already in April 1919, Beneš conveyed a letter from Tůma, the director general of the Pražská úvěrní Banka to the Quai d'Orsay, in which the director declared that there was yet another battle that France and Czechoslovakia had to fight together, as half of the assets located in Bohemia were owned by Germans. The French could reduce the German preponderance this by facilitating advances by French banks to enlarge the base of the Czechoslovak bank.²⁰ The subsequent 'franchisement' of the Austrian Länderbank with the active support of the Czechoslovak government, was a good example of successful financial intervention on the part of France in Central Europe, also relying on pre-war experience in the region.²¹ However, even in the instances of the French successes, which were, at least formally, in the nature of entirely private undertakings, e.g. when the French Société Générale took up 80 per cent of the Pražská úvěrní's increased capital, Czechoslovak state involvement was conspicuous. In addition to the direct involvement of the Czechoslovak Foreign Minister, Czech laws also interfered, preventing French representation on the bank's management. Operating under heavy state controls, as early as 1919, the directors of the largest and most prosperous Czechoslovak bank, the Živnostenská Banka, sent a mission to London to secure British capital. That mission, as opposed to the overtures to France, failed entirely, in Clerk's opinion, 'owing to the lack of confidence in the English bankers in Central Europe, and to their ignorance of the possibilities and even the whereabouts of Czechoslovakia.'²² Within two years, the British would become expressly hostile to the Živnostenská, which was closely associated with Rašín and his National Democratic Party.

4.3 THE EIGHT PER CENT STATE LOAN

The history of British participation in the financial affairs of Czechoslovakia after the First World War is closely linked to the pre-eminent economic position that Bohemia had occupied within the Monarchy before the war, and to the £1.5 million that the Anglo-Oesterreichische Bank, which had many branches and interests in the new Czechoslovakia, owed to the Bank of England from before the war. On account of this debt, the Bank of England had a direct stake in the reorganisation of the bank. Moreover, Norman had a plan according to which, the Anglo-Oesterreichische (or Anglo-Austrian) Bank, revamped with British support, would play, as a kind of local flagship, a significant role in the economic reconstruction of the whole of Central Europe. As Robert Bruce Lockhart, the British Commercial Commissioner in Prague, reported for the Foreign Office, 'the Governor of the Bank of England holds views of a [...] character' far beyond the mere recovery of pre-war debts. Bruce Lockhart had been informed that Norman was determined to create an Anglo-Czechoslovak Bank 'which would be supported by the Bank of England and which would play an important role in restoring the economic life of the Central European States.'²³ The inevitable British preponderance in such an institution raised serious doubts among the Czechs who were in the process of asserting their independence in public finance. Yet it was made clear to them during the negotiations that their success in securing a major state loan in London virtually depended on their acquiescence to the proposed British scheme.²⁴ After the breaking up of Austria-Hungary, the Anglo-Oesterreichische Bank, founded in 1865, and one of the leading banks in the Monarchy, was converted into an English bank. During June and July 1921, Michael Spencer-Smith, a director of the Bank of England and a board member of the Anglo-Austrian,²⁵ reached an agreement in Vienna by which a British syndicate, which included the Bank of England, would take over the bank in Austria and its branches in the successor states.²⁶ Spencer-Smith's negotiations in Prague, however, could not bring straightforward results. The Czechs desired either the whole bank to be converted into an Anglo-Czechoslovak Bank seated in Prague, or a smaller Anglo-Czechoslovak

Bank to be established on the basis of the old Anglo-Austrian's assets in Czechoslovakia. Spencer-Smith's brief from Norman contained a strong preference for a single large bank with its headquarters in London. This vision was also shared by the Foreign Office. Supported by his Commercial Secretary, Bruce Lockhart, who believed that only a strong, London-based, organisation would be able to assist in checking German economic expansion into Central Europe, Clerk put it to Beneš that the Czechs would only be able to raise a loan in London if they accepted the Bank of England's scheme for the Czechoslovak assets of the Anglo-Austrian. On 10 October 1921, Norman agreed, as part of a limited compromise, to the conversion of the Czechoslovak branches of the Anglo-Austrian into an Anglo-Czechoslovak Bank with participation by the Bank of England and the Czechoslovak government.²⁷ Even so, the Anglo-Czechoslovak Bank would be virtually owned by the Bank of England, which possessed the majority of the shares in its capital. Beneš had few options, and concluded an agreement with Spencer-Smith conforming to the terms outlined by Norman. As part of the arrangement for establishing the new bank, the Czechoslovak government guaranteed to the Bank of England that pre-war debts owed to it through the medium of the Czechoslovak branches of the Anglo-Austrian Bank (up to a sum of 156 million Czechoslovak crowns).²⁸ In the account of his subsequent conversation with Beneš (who had recently become Prime Minister as well as Foreign Minister of Czechoslovakia), Bruce Lockhart recorded that

in signing this agreement Dr. Beneš has had other motives than the mere securing of the support of the Bank of England for his country. He requires a state loan, and he told me quite frankly that the fate of his cabinet depends upon being able to secure the loan.²⁹

At this stage, the benefits of achieving a deal with the British made Beneš a pliant partner, since the alternatives were either French or German sources, where the sacrifice of Czechoslovak independence would be equally great without gaining the unquestionable advantages of access to the London securities markets. Avoiding the French connections of the Živnostenska Bank, the bank allied to one of Beneš's main political rivals, the National Democrats, was another bonus for the Czechoslovak leader.

Having secured what the Bank of England regarded as preconditions for any further business, the Czechoslovak government immediately launched a bid for a loan to be floated in London for the Czechoslovak state. Lockhart declared that by supporting Beneš who spearheaded the diplomatic-financial offensive for the loan, Britain would be taking the first step towards restoring the economic life of Central Europe.³⁰ Spencer-Smith was instrumental in persuading Baring Brothers to take the key role in financing the loan. Vilem Pospíšil, director of the Banking Office of the Ministry of Finance in Prague, did most of the direct negotiating on behalf of the Czechoslovak government in London. In the meantime, as the ex-king Karl's second attempt to re-occupy the throne of Hungary resulted in mobilisation in Czechoslovakia, and as the military structure of the Little Entente seemed likely to be called into action, Spencer-Smith warned that 'any wars or rumours of wars' would make it quite impossible for the Great Powers to assist in financial operations.³¹ There can be no doubt that this communication had a calming influence on the volatile situation in Central Europe.³² In January 1922, Clerk travelled to London to discuss with Barings the launching of a loan for Czechoslovakia. Barings were willing to take the lead, provided that the British government approved the deal. One obstacle which prevented government endorsement was the Czechs' reluctance to settle foreign private claims for pre-war debts. Finally, as Beneš could not provide guarantees for the debt settlement, and consequently without the necessary government backing, it was Norman's intercession at Barings in the interest of the loan that made the transaction possible. On 6 April 1922 the first tranche of the so-called 8 per cent Czechoslovak state loan of £10 million was issued in London and New York. The Financial Section of the League of Nations also contributed and benefited by devising a form of arbitration by the League in case there should be disagreement between the Czechoslovak government and the bondholders. The Czechoslovaks would under no circumstances allow direct supervision of the implementation of the repayment schedule. The new structure was rightly regarded as a breakthrough.³³

The loan became a focus of political discontent in Czechoslovakia. The fact that the shares were all disposed of within an hour and a half when the loan was placed in London caused the opposition to claim that

the government had yielded 'to a successful bluff, and that they might have obtained their money at a cheaper rate of interest' than 8 per cent. Another wave of dissatisfaction set in when, due to the unpopularity of Central European government securities, the London price fell. The same opposition argued that London was 'purposely depressing it in order to avoid making the second issue.'³⁴

The acquisition of the two-tranche loan by Czechoslovakia in early 1922 also illustrated the difference between the Czechoslovak behaviour in interactions with the British financiers compared with that of Hungarian emissaries. Only the most extraordinary amount of pressure exercised by the Governor of the Bank of England could impose any degree of British political will on the single-minded Czechs, who refused to allow the lenders' administrators to operate in Prague. No sort of British control, as we shall see, could be imposed on the Poles.

4.4 THE ANGLO-CZECHOSLOVAK BANK

The Anglo-Czechoslovak Bank, the major conduit through which British financial and limited political influence was exerted in Czechoslovakia, survived a troubled period in the late summer of 1922, when its President, Kuneš Sonntag,³⁵ resigned from his post, threatening with the resignation of all the Czech directors. Lockhart explained that Sonntag's departure deprived the bank of essential business that the support of his Agrarian Party had brought to the bank. The weakening of the Anglo-Czechoslovak would not only cause damage to British interests, but the bank was also meant to 'act as a counterpoise to the all-powerful *Živnotenská*' a bank closely associated with the National Democratic Party, and the then Finance Minister, Rašín. Therefore, from the British point of view, the President's resignation had to be rescinded at all costs. In Lockhart's opinion, Peter Bark,³⁶ a Slavophile, who 'understands their mentality' was the 'most acceptable to the Czechs' to negotiate on behalf of the English directors.³⁷ Clerk swiftly alerted Bark: 'Consider your immediate presence here essential [...], further delay is dangerous.'³⁸

By his resignation, Sonntag wished to register his protest against the influence of the Anglo-Austrian Bank and Viennese interests in his bank,

which was after all, at least on paper, an independent Czechoslovak bank. He was particularly anxious to curb the authority wielded by Rosenberg and Simon, who were members of the boards of both the Anglo-Austrian and the Anglo-Czechoslovak banks. The situation was complicated by the fact that Sonntag, before assuming the presidency of the Anglo-Czechoslovak Bank, had been President of the Bohemia, a small bank with valuable contracts, and another interest of the Agrarian Party. Sonntag left the presidency of this bank with the understanding that the Anglo-Czechoslovak Bank would support the smaller bank. Now, the Bohemia had come to the end of its liquid capital, and the British directors of the Anglo-Czechoslovak would not agree to any scheme to bail it out. Švehla, the new Prime Minister and leader of the Agrarian Party,³⁹ had enjoined Sonntag either to resign or carry out the salving of the Bohemia. Because pressure from Vienna sided with the attitude of the British directors, the cause of the Anglo-Czechoslovak Bank had become a symbol of the country's desire to assert its financial and political independence. Even Beneš and the president's son, Jan Masaryk, spoke out against 'the Anglo-Czech Bank being used by the Viennese directors for the benefit of Vienna.'⁴⁰ Another motive behind the Czech resentment was that, as most of the branches of the Anglo-Czechoslovak (a former Viennese bank) were in *Deutsch-Böhmisch* territory, the government was especially anxious to strengthen the Czech element. These Czechs were mainly representatives of the Agrarian Party, whose leader, Švehla, was instrumental in securing the parliamentary majority against the National Democrats which was necessary to agree to the terms of the contract signed between Beneš and Spencer-Smith on behalf of the Bank of England.

The most notable businessmen behind the Agrarian Party, Horáček, Sonntag, Richtera, and Kubiček, represented the industrial group in the party, and were the most important figures in the malt, sugar and spirit industries respectively. As these industries supplied a significant share of Czechoslovakia's national income, a serious proportion of the banking business related to this multi-billion crown revenue fell into the sphere of the Anglo-Czechoslovak Bank. In addition to the business connection, Švehla's close association with the bank helped the British to gain a foothold in Czechoslovak politics which they did not manage to

acquire through their dealings with Beneš, the Foreign Minister. Because the Czechoslovak economy did not require the kind of financial *Sanierung* operations which were carried out in Austria and Hungary, any financial connections with Czechoslovakia had to be cultivated with extra care by the British. The pro-British Agrarian Švehla, only 48 years old at the time, was praised by Lockhart as being 'broadminded beyond most Czechs, possesses a statesmanlike mind, and is one of the sanest of his countrymen with regard to the Deutsch-Böhmen question.' He was also described as an 'admirer of English methods,' and as one who 'favour[ed] the British policy in Europe as against the French.'⁴¹ By contrast, Lockhart sometimes gently criticised Beneš for being 'inclined to exaggerate the situation [...] with regard to Vienna and Viennese banking. [...] Like many other Czechs he seems obsessed with the idea that the Viennese directors possess more influence in London than the Czechs.' Beneš had told Lockhart: 'Whatever might happen in twenty years [*sic*] time, the Anglo-Bank would have to look to Czecho-Slovakia and not to Vienna for its profits during the next few years.'⁴²

The crisis at the Anglo-Czechoslovak Bank was defused after the arrival of Bark on 20 August 1922. Having negotiated with Czech bankers and politicians on behalf of the English directors for three days, he secured a scheme which rescued the Bohemia bank and thus allowed Sonntag to withdraw his resignation and save face at the same time. This way the continued support of the Czechoslovak Agrarian Party was ensured for the Anglo-Czechoslovak Bank, a development that filled the British Commercial Secretary with joy.⁴³

This incident illustrates the close connection between politics and business in post-war Czechoslovakia, which also affected the country's relations with the Western powers. In Lockhart's judgment, in Czechoslovakia the 'Government exercise[d] a dictatorial control over every branch of industry and commerce.' Elsewhere, Clerk declared that '[i]n this country business and politics are inextricably mixed,' and he found it apposite to devote the entirety of the section on Anglo-Czechoslovak relations in his Annual Report on 1922 to the story of the Anglo-Czechoslovak Bank and the raising of the 8 per cent Czechoslovak government loan in London and New York.⁴⁴

In 1922, the British reorganised the Anglo-Czechoslovak Bank whereby the contact between Prague and London became more direct and the directors in Vienna were confined to advisory duties. The Viennese connection, which proved to be a 'source of irritation to the sensitive nationalism of the Czechs' was thus reduced, and British leverage was increased. For many senior officials of the bank, however, as Clerk reported in 1923, 'the hopes based on [the British connection] have not been realised.' The Czechs believed that the new bank would automatically give them a privileged position on the London money market, and 'are disappointed to find that their applications are dealt with on grounds of business and not of sentiment.' The British directors complained about the extent to which the bank was used in Czechoslovakia for political purposes. Rašín, who had long been associated with the Živnostenská Banka, became 'jealous of the intrusion of a powerful English banking house, and tried to interfere with the bank by directing custom to the favoured rival.'

The intimate association between British financial groups and Whitehall (echoed by the interrelated structure in Czechoslovakia) on the one hand and the Czechoslovak Agrarian Party on the other hand endured throughout the first half of the 1920s, and even pointed beyond the connecting medium of the Anglo-Czechoslovak Bank.

In the autumn of 1925, after one of his visits to Prague to discuss matters related to the Anglo-Czechoslovak, Peter Bark confirmed the British view that the Prime Minister, Švehla, was a 'great asset.' In combination with Masaryk, Bark wrote, they could 'steer [Czechoslovakia] through any rough waters.'⁴⁵ Despite the difficulties encountered in the early years, the bank, created out of the Czechoslovak branches of the Anglo-Austrian Bank, helped 'consolidate the financial link between Czechoslovakia and England.' The British plan was to have an organisation in the bank where

the current business would be carried out by national elements, but that there would always be a prominent representative of British interests whose duty would be to watch all the proceedings, and veto anything which would not be in agreement with British principles.

Bark also interceded so that the Anglo-Czechoslovak's President, Sonntag, former Finance Minister, Minister of Commerce and Minister of Agriculture, not be appointed Finance Minister again, so that he could retain his position in the Anglo-Czech bank. Finally, he made a strong effort to counter 'the deeply-rooted suspicion that the severance of the links with Vienna [in 1922] was only a formal one and that the Viennese influence [...] cannot be eradicated.' The total share capital of the Anglo-Czechoslovak Bank was held in London by the *Anglo-Austrian Bank*. In Bark's view this was 'a great handicap to the development of our business in countries other than Austria where we have branches and other connections, and it would be a good policy if we could find our way to change this name.' Because of the political menace represented by the *Živnostenska Banka*, and the known British opposition to that institution, Švehla, as well as Masaryk, and Novak, the new managing director of the Banking Office of the Ministry of Finance, expressed their desire to Bark for close financial ties with the British, which could include the amalgamation of the Anglo-Czechoslovak Bank with other Czech institutions, and further Czech participation in the bank's business. Bark responded to this that if only the bank had the possibility to pay dividends, they would be prepared to a further share issue 'in order to acquire the co-operation of serious Czech financial groups.'

In December 1925, Norman dispatched a set of documents to Niemeyer at the Treasury, on a conversation between Francis Aveling of the Foreign Office and H. Carter and V. Ponsonby of the British and Allied Investment Corporation Ltd. regarding the establishment of a new bank in Prague by the Czechoslovak Agrarian Party. Spencer-Smith, on behalf of the Bank of England, the Anglo-Austrian and the Anglo-Czechoslovak banks, had told Carter and Ponsonby that the deal would have to be approved first by the Foreign Office. Carter had been approached by the managing director of the Škoda works, whom he had met 'in connection with the recent London issue of the Škoda 8 per cent debentures.'⁴⁶ The managing director was himself an Agrarian and anticipated, or rather, wished that as a result of the approaching general elections in Czechoslovakia, the Agrarian Party would increase its representation in Parliament. As the Agrarians' interest in the Anglo-Czechoslovak Bank had not been sufficient to break the prominent position of the

Živnostenska Banka, under the control of the National Democrats, they were 'now anxious to establish [another] rival concern,' the future of which would to a large extent be assured by its undertaking the financial operations associated with the sugar and hop industries and also by the banking business which would be generated and brought to it by the Škoda works. The substance of the transaction would be the 'buy[ing] out of five or six of the smaller banks now in existence,' among which they also counted the Anglo-Czechoslovak Bank, 'which is of course a branch of the Anglo-Austrian Bank and thus indirectly connected with the Bank of England.' According to the investment bankers, '[t]he price which would be offered for the purchase of the Anglo-Czechoslovak Bank would represent a substantial profit to the shareholders on their original capital owing to the large appreciation of the Czech currency since the formation of the Bank.' The British control of the bank would be safeguarded by 'a special provision [...] inserted in the contract.' Aveling cautioned against the merger 'in which British interests' would more than before 'be subordinated to those of a Czechoslovak Party.' When Carter asked him whether 'he should approach the Czechoslovak Legation on the question,' Aveling told him that he 'could see no obvious advantage in this course since the Agrarian Party and the Škoda works being on the spot were better placed to discuss the matter with the Czechoslovak Government, the Prime Minister of which was himself the leader of the Agrarian party.'

Spencer-Smith's explanation, provided for Norman's use, threw more light on the event, which was not isolated. Both 'Mr. Svehla, the Czech Prime Minister, and Dr. Benes,' Spencer-Smith explained, 'wish to see a large bank in the country, as at the present time the Živnostenska banka is in too powerful a position [...]' Spencer-Smith's verdict was unequivocal: 'The Anglo-Czechoslovak Bank [was] steadily consolidating its position,' and was willing in principle 'as agreed with Dr. Benes when the bank was founded' to broaden its base by the admission of a proportion of Czech shareholders. The Director of the Bank of England, however, appended the unchanged British conditions: 'provided always that complete British control is maintained, the majority of the shares being in British hands.' Spencer-Smith's other stipulation, that 'the Bank should retain its present independence from party politics'⁴⁷ was a less

credible representation of the facts, and was likely to have been added to appease Norman, who was averse to the involvement of banks in politics. It can be seen, therefore, that the British aimed to preserve the balance of the precarious leverage that they had obtained in Czechoslovakia through banking operations.

4.5 A DELICATE PROBLEM: CZECHOSLOVAK WARTIME DEBTS TO BRITAIN

The negotiations for the Hungarian loan brought to the surface the question of the obligations of the Little Entente countries to pay reparations and the so-called 'liberation debt,' subjects which had hardly been discussed in the affected countries before. According to the treaties of St. Germain and Trianon the victorious successor states were debtors to the Reparation Commission for all they had obtained from those treaties in the way of former Austrian and Hungarian state property, or private property of the Habsburg family. Czechoslovakia also owed the costs of the equipment and transport of Czechoslovak troops during and after the war. Since Austria had been relieved of reparation payments for twenty years, and Hungary was granted conditional suspension as of 1 January 1924,⁴⁸ the Little Entente governments argued that they too ought to be relieved of their liabilities to a similar degree. It was not until the middle of January 1924 that Beneš first broached the subject of Czechoslovakia's debt in the Czechoslovak parliament in connection with the budget. According to Beneš's conservative estimates, Czechoslovakia's reparation debt stood at something approaching £200 million. The liberation debt⁴⁹ was calculated to be roughly £30 million.⁵⁰ The Czechoslovak government was not in a position to meet this liability, and could with difficulty even pay interest on it. The sudden announcement caused nervousness about the soundness of Czechoslovakia's financial position, and prompted selling of Czechoslovak crowns on world markets after a two-year period of confidence in the currency. On 18 March 1924, *The Times*, citing the Czechoslovak Press Bureau, reported 'satisfactory settlement' in the question of the liberation debt.⁵¹ It was their strong stand taken over the Hungarian reconstruction loan which

procured for the countries of the Little Entente the postponement of and practical release from the liberation debt.

The Little Entente governments formulated their announcements to their own constituents as if all aspects of wartime liabilities towards the Entente powers had been definitively settled. This was not the case. When, in late 1924, Beneš approached the British financial authorities with the idea that at least part of the direct debts of Czechoslovakia to Britain should be reclassified as part of the inter-allied debts and as such subject to a future general settlement. The question raised by Beneš concerned the price of the repatriation of the Czechoslovak troops from Siberia. He argued that the British had recognised as war debts sums due to them from the Polish government for repatriation of troops, and that the Allies had requested that the repatriation of the Czech Legionaries be deferred until after the Armistice.⁵² Beneš's inquiry provoked an irate answer from the Treasury. Niemeyer explained to the Foreign Office, that the '£80,000 and £1,000 advanced to Professor Masaryk and Colonel Gibi[š] in 1918' and the '£826,520.10[s].7[d] due in connection with the repatriation of Czecho-Slovak troops from Siberia constitute debts payable by the Czecho-Slovak Government to H.M. Government in cash and there can be no question of any "inter-allied solution",' as the 'only countries concerned in the question are H.M. Government as creditor and the Czecho-Slovak Government as debtor.' Niemeyer informed Chamberlain that at the time when the advances were made 'Czecho-Slovakia was not yet an Allied Power and the sums in question were advanced to [...] the recipients personally—a liability which has now been taken over by the Czecho-Slovak Government.' The armistice had already been concluded when the debts were incurred, and 'the amount due to H.M. Government in this connection is in no sense a War debt.' Niemeyer warned that 'the conclusion of satisfactory arrangements for dealing with their outstanding debt [...] cannot fail to have material effect upon the credit of Czecho-Slovakia in this country.'⁵³ A month later, Maurice Peterson, First Secretary at the British Legation at Prague, found the terminology used in Niemeyer's letter so sharp, that he 'thought well to modify somewhat the terms of the Treasury letter' before handing it over to Czech officials.⁵⁴ In the first secretary's opinion, Beneš's reasons for taking up this matter were his increasing

difficulties following the miscarriage of the Geneva Protocol. In Peterson's view, 'it may well be that he wishes to strengthen his position at home by taking a leading part in another aspect of European settlement.' The debate on debt repayment produced scornful remarks at the Foreign Office. Howard Smith was 'doubtful whether Dr. Beneš will catch the Treasury out despite what he boasts.' In Lampson's opinion, 'Dr. Beneš is somewhat of a busy-body. It is—or rather will be—almost an impertinence if he weighs in with a scheme for inter-allied debt settlement.' Crowe added: 'But he is quite capable of doing so,' topped by Cadogan's jibe: 'Il est capable de tout—and quite untrustworthy.'⁵⁵ The Reparations Commission continued to be dogged by this issue until the general settlement of the reparations question at the Hague Conference of 1930, but there is no sign that these debts were ever paid according to the original parameters.⁵⁶

4.6 THE SECOND TRANCHE OF THE EIGHT PER CENT LOAN

The high level of intermingling in Czechoslovakia of politics and finance also accompanied the negotiations for the issuance of the second tranche of the 8 per cent loan⁵⁷ and exploratory talks on the possibility for a further state loan to be floated on the London market. Norman was informed that an intermediary of Beneš and Švehla had discussed with a board member of the Anglo-Austrian Bank who visited Prague the possibility of raising a new loan. Laurin, the intermediary, explained that by assisting the Czechoslovak government, the Anglo-Austrian bank 'would acquire a claim on the gratitude of the Prime Minister [Švehla], as representative of the Agrarian Party.'⁵⁸ Later Beneš himself told the board member that he was aware of the obstacles Czechoslovakia was facing by being 'entirely dependent from [*sic*] France in the foreign policy of this country.' By contrast, Beneš pointed out, 'financially and economically [Czechoslovakia had to] rely practically entirely on close relations with London.' Before his planned visit to London in mid-July 1923, where he would meet Spencer-Smith to discuss the loan, Beneš wanted to know 'whether at least the second tranche of the old loan, amounting to 4 million Sterling, could be arranged during his stay there so as to be sure that

he would not have to come back without a success.' He badly needed the money by October 1923. Success in this regard, according to the informant, 'would greatly improve [Beneš's] position against the National Democrats' [*sic*] Finance Ministers, who during the last few years have been trying in vain to raise a loan on nearly all the markets of the world.' The board member of the Anglo-Austrian Bank promised Beneš to intercede on his behalf with the London headquarters of his bank. Lockhart judged, probably too optimistically, that 'the mere fact that directors of the Anglo-Austrian Bank should have come into personal contact with Beneš was in itself a great step in the right direction,' even though, he wrote, 'the Austrian and the Czech will [not] lie down now like the lion and the lamb under the influence of Arian's cithara...'⁵⁹ The letter provided Norman with important information regarding the domestic weakness of Beneš, the value of which he maximised to secure Czech support for the Hungarian reconstruction scheme.⁶⁰

Once the pressure to release the Hungarian liens had been applied from London, Beneš became more difficult to handle, as an unusually vexed missive by Clerk suggested. On his return from his recent visits to Paris, London and Brussels, and following the Sinaia meeting of the Little Entente, Beneš

had told Dr. Sonntag, the President of the Anglo-Czechoslovak Bank, that he was indignant at the treatment he had received from the Bank⁶¹ in London, and a week ago, at my last interview [with him], he suddenly, just as I was leaving the room, let himself go.⁶²

Beneš had told Clerk: 'You see, just what I told you. The Hungarian papers are all saying that I only worked for Hungary at Sinaia because I was told in London that I could get no money unless I did so.' Intent on eliminating the impression that he could be leaned on, Beneš claimed that

[M]oney or no money, his Hungarian policy would have been the same, and he considered it as humiliating for him that he should be made to appear as only acting under the financial whip, but what he most particularly resented was the attitude of the Anglo-Czechoslovak Bank and of Messrs. Baring Brothers.

Beneš considered the telegram sent by Baring Brothers to him through Pospíšil,⁶³ a prominent member of the National Democratic Party, '*as intolerable*.'⁶⁴ In Beneš's view, Baring Brothers had made a definite contract with the Czechoslovak government, 'and had no sort of right suddenly to introduce political conditions which in no way concerned them,' and consequently, 'for his part, he considered himself freed from all further dealings with that house.' The Foreign Minister declared that if the Czechoslovak Minister of Finance, Bohdan Bečka (National Democrat), 'cared to approach them, that was his affair, but he, the Minister for Foreign Affairs, would, and could get his money elsewhere [...], or, at the worst, go without.'⁶⁵ A London representative of the Anglo-Czechoslovak Bank also told Beneš 'that any money for Czechoslovakia depended on his facilitating the Hungarian Loan.'⁶⁶ Beneš held that such a statement of condition was 'not one which the Anglo-Czechoslovak Bank was in any way qualified to make.' Clerk observed that in this matter Beneš 'was quite incapable of appreciating the other point of view.' As a result, as Clerk put it, 'the Anglo-Czechoslovak Bank looks to have lost an ally and acquired an enemy in the person of the Minister for Foreign Affairs.' The stand-off impacted on Beneš's and Švehla's quest to purge the government of the National Democrats including, according to them, the incompetent Bečka. As Beneš's relations with the Anglo-Czechoslovak Bank weakened (and the National Democrats strengthened their position by making a deal with the Roman Catholic Church), collusion with the Anglo-Czechoslovak Bank to undermine the Živnostenská, the stronghold of the National Democrats, was no longer possible or sufficient to unseat them.⁶⁷ Clerk asked the Foreign Office and the British financial authorities to change their tactics with Beneš. He explained that it was not in the British interest to see 'the position of the Anglo-Czechoslovak Bank [...] severely shaken.' Clerk recalled that the Anglo-Czechoslovak Bank had fought for the interests of Czechoslovakia throughout the conflict over the Hungarian loan, and surmised that, '[a]fter a rest [...] Beneš will be [...] ready [...] to resume normal negotiations for the second half of his loan.'

It was clear that Beneš would have to drop his opposition to engaging with Baring Brothers as well. A memorandum prepared by the Anglo-Austrian Bank contained the following advice:

The next step to be taken for the preparation of a new loan should be the stabilisation of the quotation of the last Czech Sterling Loan, which up to now has been subject to very great fluctuations. This aim could easily be achieved by an arrangement with Baring Bros. [...] It is obvious that before arrangements can be made for a new loan the second tranche of the old loan, amounting to £4 millions, must be issued.⁶⁸

Following the Czech acquiescence in the Hungarian reconstruction loan, Norman informed Niemeyer that Spencer-Smith had proposed to let Beneš know that 'the balance of the Czech Loan might be welcomed, as the Hungarian protocols &c. have been recently signed by the Czechs.'⁶⁹ Norman confirmed that 'the Bank accept a firm allotment on underwriting terms of £4,000,000 Czecho-Slovak 8 per cent Sterling Bonds under the prospectus to be dated the 19th instant.'⁷⁰ On the same day, arrangements were made for the issue in London of an 8 per cent loan of £1,850,000.⁷¹ It was notable that the issue price of the London portion of the second tranche was the same (96½ per cent) as in 1922.⁷² The loan was secured by a first specific charge on the receipts of the customs duties and on the net profits of the tobacco monopoly. No further pledge of these revenues could be created ranking in priority, or on the same terms, until all the bonds had been redeemed. It was further agreed that bonds not redeemed by the operation of the sinking fund would be repaid at par on 1 April 1951. As had been the case with the first portion, the issue was launched by Baring Brothers, N. M. Rothschild and Sons, and J. Henry Schröder and Co.⁷³

To compound the bad blood left behind by the linkage of the second tranche of the loan to political concessions, the Czechoslovak Minister of Finance, Bečka, committed a faux pas in international money diplomacy. During Beneš's absence at Geneva in November 1924, Bečka sounded the London market for the additional loan, acting not only without an agreed policy, but also failing to liaise with Baring Brothers. This cast doubt on Czechoslovakia's ability to keep their house in order financially, and both the Bank of England and *The Times* immediately reopened the issue of the need for foreign financial control in Czechoslovakia.⁷⁴ This, in turn, made Beneš's opponents attack him for the terms and con-

ditions of the original Barings loan.⁷⁵ In the end, amidst the suspicions and recriminations, no additional government loan in London for Czechoslovakia could be raised.

4.7 NEW FOREIGN LOAN WITHOUT BRITISH PARTICIPATION

As the Czechoslovak treasury could not do without a further large foreign capital injection, after the failure in London and a good deal more negotiations, a loan was arranged in New York in 1925 for a capital sum of \$50 million, and on '26th October, subscription lists were opened for half this amount.'⁷⁶ The bonds were bearing 7½ per cent interest. Following a visit to Prague, Peter Bark explained that the Czechs had had approximately 8 billion Czech crowns of floating debt in 1924,⁷⁷ and the new American loan, which was 'a great success for Czecho-Slovakia,' would only be used for the consolidation of this variegated debt. The new bank of issue would also benefit from 'a revolving credit [...] which the bank may use in case of emergency to stabilise the rate of exchange of the Czech crown.'⁷⁸ The deal marked the end of attempts to connect the fortunes of Czechoslovakia's finances with the London money market. The British had to content themselves with the fact that the security for the American loan was a mortgage on the alcohol and sugar taxes, together with a *second* mortgage on the customs revenues and tobacco monopoly. 'It will be remembered,' Alexander Adams, the British Commercial Secretary in Prague, wrote 'that the 1922 sterling 8 per cent loan carries as security a first mortgage on the customs dues and tobacco monopoly, so that it ranks before the new American loan in this regard.'⁷⁹

While the Czechoslovak government was more or less constantly endeavouring to obtain loans from abroad for its primary objectives, it was reluctant to grant permission to Czechoslovak commercial banks to contract foreign loans. According to a memorandum prepared for the Bank of England by G. J. H. Lloyd of the D.O.T., acting on behalf of the Controller-General, Engliš, the new Minister of Finance, had refused to grant such permits⁸⁰ on the grounds that a foreign loan entailed 'an increase in the amount of goods which would be imported.'⁸¹

4.8 BRITAIN AND THE NATIONAL BANK OF CZECHOSLOVAKIA

In October 1922, the Banking Office of the Czechoslovak Ministry of Finance, (*'Bankamt,'* as usually referred to by officials of the Bank of England) approached the Federal Reserve Bank of New York with a request for credits. Before dealing with their application, the Governor of the Federal Reserve inquired about Norman's 'experience with Bankovní Úrad Ministerstva Financí and how you regard this institution.'⁸² Norman promptly replied that the 'Department [...] must be regarded as identical with the Czecho-Slovakian Government,' and 'we should not be prepared to enter into relationship with them.'⁸³

Nonetheless, in December, Norman received a delegation in Threadneedle Street, led by Milan Kučera, the manager of the Banking Office, who was also accompanied by Ladislav Neumann, Czechoslovak commercial attaché in London. Kučera inquired whether the Bank of England 'would be prepared [...] to receive and hold for safe custody on behalf of his Office gold purchased in the London Market and, *if required, to grant to his Office credits on the security of such gold.*'⁸⁴ Norman's immediate objection was that the Banking Office was part of the Czechoslovak government and as such in no way capable of meeting his absolute condition that the Bank of England would only maintain relations with independent central banks. Kučera replied that 'it was intended as soon as possible to replace his Office by a private Banking Company entirely independent of the Government,' but in the meantime, 'his office is forbidden by law to lend monies to the Government.' On the strength of the Prague manager's statement, Norman consented, as a temporary arrangement, '*which would probably last for a year or so,*'⁸⁵ to regard the present Banking Office as Central Bank.⁸⁶ Early next year, Pospíšil, director of the Banking Office in Prague, also accompanied by Neumann, called to see Sir J. Gordon Nairne, comptroller of the Bank of England. Pospíšil wished to proceed with the credit transaction agreed upon with Kučera. Nairne gave the go-ahead to granting 'credits upon the security of [Czechoslovak] gold up to 95 per cent of its value at the British statutory price.' Any credits were limited to three months at a time, though this was renewable. Later Pospíšil and Neumann also saw the governor, who

complained that little had been done to establish a central bank in Prague. His visitors informed him that an act to establish a central bank had been passed in Czechoslovakia, and any credits asked for in the meantime 'would be used for the stabilisation of the Exchange and not for effecting any artificial appreciation of the Exchange in face of economic forces.'⁸⁷ Finally Pospíšil announced 'that hitherto the principal influence in Czecho-Slovakian financial affairs had rested in Zurich but he was anxious that this should be transferred to London.'⁸⁸

It could not have pleased Norman, when, shortly afterwards, he read, what he had already known, from the Vienna correspondent of *The Observer*, that 'opening of new Czecho-Slovak bank of issue is pending. Dollar would be foundation of the new unit of currency.'⁸⁹ Though the London issue of the Czechoslovak stabilisation loan and its pending second tranche remained an important card in Norman's hand, the fact remained that the stabilisation of the Czechoslovak *kruna* did not serve 'the good of sterling.'⁹⁰

A copy of the bill establishing the new Czechoslovak central bank was obtained in advance by Charles Dodd,⁹¹ First Secretary of the British Legation in Prague, and sent to the Foreign Office. Niemeyer, who was, as a rule, supplied with copies of such dispatches, forwarded the communication to Norman. The report explained that the passage of a new act was necessary in Czechoslovakia because, according to the main law, adopted in 1920, a bank of issue was only to be formed when it could issue currency on a strict gold basis, according to the agreed 'normal' gold parity of the Czech crown, i.e. about 24 crowns to one pound sterling. In the event, the new central bank merely had the task of holding the external value of the crown stable at the level of the last two years in relation to the gold-based currencies. Due to the weakening of the economic position in 1922–23, and the resistance to adopting a British orientation, less was done than originally envisaged to put the currency on the gold standard. Following the successful stabilisation of the Hungarian, German and Austrian currencies in 1925–26, foreign funds placed in Czechoslovakia during the inflationary period were withdrawn, which resulted, already in 1924, in the reimposition of foreign exchange controls.⁹² Adams also reported that one-third of the capital of the new bank, which was fixed at \$12,000,000,⁹³ was to be subscribed by the

Czech government, and only two thirds were offered for public subscription. The business of the bank was to be carried out by the same management which had been in charge of the Banking Office, often sneered at by Norman. Although the board members were elected by the shareholders, the governor was to be appointed by the government. This introduced an element of political intrigue because of the divergent political party affiliations of the bankers of Czechoslovakia. The intelligence report revealed that 'the new Bank shall endeavour to maintain the Czechoslovak crown at an international rate of exchange of about 3 gold U.S.A. cents.'⁹⁴ The writer acknowledged the promising nature of this arrangement, but could not refrain from carping at the plan. 'In practical working,' it was argued, 'there lurks the possibility' that the paying up of two thirds of the capital may be delayed, and the bank may not be able to maintain the stipulated rate of exchange. In fact, at the start of operations, the cover-ratio of the Czechoslovak National Bank amounted to as high as 28 per cent.⁹⁵ The author acknowledged that 'a general measure of protection against depreciation seems to be provided by the clause authorising the Government to contract a loan up to 50 million dollars and to hand the proceeds over to the bank for currency purposes,' and concluded that 'on the whole the Bill represents a conservative and well-meaning attempt to settle the currency question of this country, although only provisionally.'⁹⁶

The degree of ambivalence reflected by not allowing British control, but seeking British assistance from a safe distance was also manifested on the occasion when Masaryk, the President of Czechoslovakia, interviewed Peter Bark about choosing the first governor of the new national bank. The President told the British-based international banker, that even after consulting with the Prime Minister, Švehla, he could not make up his mind. Bark was asked 'to make a suggestion,' in effect to choose from among Karel Engliš, Financial expert within the government, a former National Democrat, Vilem Pospíšil, National Democrat Vice-president of the Banking Office of the Ministry of Finance, general manager of the Prague Savings Bank, as well as Czechoslovak representative on the Financial Committee of the League of Nations, and Loewenstein, the financial director of the Škoda munitions factory, one of the most successful companies of the country. Masaryk explained that he desired

to find a bank governor who would be 'independent of the Government, but also of the influential private banking groups' of Czechoslovakia, including the Živnostenská Banka. Bark was delighted to hear the Bank of England's well-known codex reiterated, but added that the future governor should also be 'able to establish the closest relations with the Bank of England.' He pointed out

two instances in the immediate past of two National Banks which were established in neighbouring countries, where unnecessary complications arose from the fact that in one country the choice of the Governor of the National Bank had been a very unfortunate one.⁹⁷

The reference to the unpalatable choice may have been to Karpiński, President of the National Bank of Poland, who refused to be drawn into the circle envisaged by Norman.⁹⁸

Masaryk further told Bark that the problem with Engliš was that he was meant to replace the Finance Minister, Bečka who had been in office since the assassination of Rašín in 1923.⁹⁹ Loewenstein would, according to Masaryk, probably find the decrease in his remuneration compared to his commercial job unacceptable. Bark replied that he had known both Engliš and Pospíšil personally, and that he 'thought Engliš would be more independent, as he resigned from the party of the National Democrats,' adding that '[a]s far as I know, Pospíšil is more closely connected with the National Democratic Party.' The president 'confirmed this, but hoped that Pospíšil would also feel independent.' In the end, Pospíšil became the first governor of the Czechoslovak central bank, and served in that capacity until 1934. Norman remarked on the letter: 'If we have not done so, we ought now to write to new C. Bank on establishment & on having assured their capital – & in hopes of close relations as soon as poss.' Sir Ernest Harvey¹⁰⁰ added: 'We have already telegraphed do not write until new Governor is appointed.' These exchanges illustrate the limitations of British influence in Czechoslovakia through the channels of financial diplomacy, and also that the British, if possible, preferred to bypass Beneš, who was conspicuous by his absence among Bark's interlocutors in Prague.

Despite the legislation, which required the new Czechoslovak National Bank (Národní Banka Československá) to assume the responsibilities of central banking on 1 January 1926, the institution only began operations from 1 April 1926 as a result of a decree issued by the Czechoslovak Minister of Finance.¹⁰¹ Therefore, it took Czechoslovakia one and a half years longer than Hungary (three years longer than Austria) to acquire this device and expression of state sovereignty.

The Bank of England continued to study the situation which resulted from the creation of the central banks of Hungary and Czechoslovakia in such different circumstances. Using the Czechoslovak laws of April 1920 and April 1925, and the Statutes of the National Bank of Hungary, an elaborate comparative table was prepared by Norman's office. The drafters of the chart paid special attention, no doubt due to Norman's interest, to the differences in levels of regulation and between the ways the two banks related to the state:

Table of comparison between the functions and spheres of operation of the Czechoslovak and Hungarian central banks¹⁰²

CZECHOSLOVAKIA	HUNGARY
<i>1. Spheres of activity</i>	
The Czech bank is entrusted with the organisation of the clearing system	Not so in the case of the Hungarian bank
<i>2. Share capital</i>	
a) Capital: \$12 million	a) 30 million gold crowns
b) No of shares: 120,000	b) 300,000
[...]	[...]
d) Shares registered	d) Shares to bearer
e) Shares only transferable with the consent of the board	e) Freely transferable

- | | |
|---|--|
| f) One third subscribed by the state and cannot be sold

(In addition, at least 20 million Cz. Kr. of State gold was used to purchase National Bank shares) | f) Original Government subscription about 77,000 shares

Present Government holding about 60,000 |
|---|--|

3. Government of the bank Board of Directors

- | | |
|--|---|
| a) Governor nominated by the President of the Republic on the proposal of the government | a) President nominated by the Head of State |
| b) 9 or 10 members
[...] | b) 13 members
[...] |
| d) 3 nominated by the President of the Republic for six years
[...] | [...] |
| f) A tenth member ¹⁰³ may be elected for 3 years by the Board with the consent of the Governor
[...] | [...] |
| h) All members must be Czecho-Slovak subjects
[...] | h) Four members may be foreigners
[...] |

6. Relations with the State

- | | |
|--|--|
| a) The Bank may not lend to the State
[...] | a) Nor to the municipalities or communes
[...] |
| d) The Bank must report annually to the Finance Minister and to Parliament | d) Not so in Hungary |
| e) No provision is made in the Czech statutes for breach of agreement by the government
[...] | e) Art. 50 of the Hungarian a statutes regulates relations for the case of breach of agreement by the government |

10. *Balance sheet, profit, reserves, returns*

- | | |
|--|----------------------------------|
| a) Half the Reserve Fund has to be invested in Czecho-Slovak government securities | a) No such limitation in Hungary |
|--|----------------------------------|

The part of the report on the Czechoslovak bank which reads: 'All decisions of the Board, the Comité Restreint,¹⁰⁴ the Sections, and the Committee of Revision require the consent of the Governor in order to be valid,' is marked heavily, probably by Norman, by a double line on the margin. The report further revealed that 'the commercial or banking cover is less strictly defined [in Czechoslovakia] than in Hungary,' and that '[n]o special provisions exist /: as in Hungary under Art. 87 and 89:/ for the proportion of cover to be maintained after the resumption of specie payments.' Specie payments may be resumed in Czechoslovakia when special legislation is passed for that purpose, while in Hungary that would only become possible, in harmony with the Norman-Popovics agreement, once the new gold currency has been introduced and the state debt to the national bank has fallen to 30 million gold crowns. In many respects substituting the British-led League of Nations construction in the case of Hungary, the Czechoslovak bank was authorised to borrow \$50 million abroad, to be used by the bank exclusively for the support of exchange.¹⁰⁵

It may be seen from the analysis that the authors of the new Czechoslovak National Bank's statutes were less mindful of some of the core concerns that had entered into the basic regulations of the National Bank of Hungary in whose inception the Bank of England and Montagu Norman had played defining roles. These concerns were the political and financial independence of the central bank from the government both in terms of statutory powers and day-to-day practice, and the openness of the central bank to foreign contacts.

The financial consolidation of Czechoslovakia, the most advanced of the countries of Central Europe from every point of view, could not be realised as part of Norman's sweeping dream 'to establish one by one the *new* parts of *old* Austria'¹⁰⁶ with the aid of a 'consortium,' or "'European international'" of central banks, whose natural epicentre was the

Bank of England. The Czechoslovak crown was stabilised against the American dollar, the new central bank used American capital to start its operations, and it was not as thoroughly autonomous, as Norman would have wished it to be.

NOTES

- 1 Clerk to Curzon, 14 July 1921, FO 371/5830/C14612/14612/12.
- 2 R. H. Bruce Lockhart, *Retreat From...*, p. 80.
- 3 Engliš was a National Democrat, Minister of Finance (May–September 1920) in Vlastimil Tusar's cabinet, and temporarily also in Jan Černý's government, which was in office from September 1920 to September 1921. Second Governor of the National Bank of Czechoslovakia from February 1934.
- 4 Rašín was a hero of the early days of Czechoslovakia, and left politics in unusual circumstances, shot by a leftist-anarchist extremist in January 1923. Nonetheless, he was criticised throughout the interwar years by Engliš and others for his drastic revaluation measures.
- 5 Alois Rašín, *Financial Policy of Czechoslovakia During the First Year of its History* (The Clarendon Press, Oxford, 1923).
- 6 Austria implemented the measure from 12 to 29 March 1919; Romania 16 June to 15 July 1919; Yugoslavia 8 to 20 January and 26 November to 15 December 1919, in two phases; Hungary 18 to 29 March 1920; and Poland 16 to 26 April 1920. (Richard Kerschagl, *Die Währungstrennung in den Nationalstaaten*, Manz'sche Verlags- und Universitäts-Buchhandlung, Wien, 1920 and Jan van Walré de Bordes, *The Austrian Crown. Its Depreciation and Stabilization* [London, 1924], p. 40, as quoted in Aurel Schubert, 'The Emergence of National Central Banks in Central Europe after the Break-up of the Austro-Hungarian Monarchy' in Carl-L. Holtfrerich, Jaime Reis and Gianni Toniolo, eds. *The Emergence of Modern Banking from 1918 to the Present* [Aldershot: Ashgate, 1999], p. 190.)
- 7 Rudolf Pilát, 'The Budget and Financial Reform in Czecho-Slovakia.' *The New Europe* vol. XIII, no. 158 (23 October 1919): p. 42. (Pilát was a member of the Slovak Club in the Prague Parliament, and a director of the Živnostenska Banka, the leading bank of Czechoslovakia.)
- 8 Mamatey and Luža, *A History...*, p. 111.
- 9 Shortly after the note stamping, fifty per cent of bank deposits were put under control, and were only gradually released by the end of 1919. Foreign loan papers could not be stamped, and many owners of notes and securities held in banks in Vienna or Budapest were hit hard. (Pilát, 'The Budget and Financial Reform...', pp. 42–43.)
- 10 Mamatey and Luža, *A History...*, p. 196.

- 11 The pre-war parity of the Austro-Hungarian crown to the Swiss currency was 105 centimes.
- 12 It was the direct link between the Banking Office, issuing banknotes and setting interest rates, and the government, which made Montagu Norman, the Governor of the Bank of England, cautious in relation to the Czechs. The left-leaning complexion of the new Czechoslovak establishment did not endear it to the British bank governor either. For further details, see section (II) 4.8.
- 13 At one point, the rate rose by more than 100 per cent relative to the 1921 level. (Schubert, *The Emergence of...*, p. 216.)
- 14 See section (I) 2.2.
- 15 'The Development of Czechoslovakia's Currency Policy', issued by the Czechoslovak National Bank, 1926, p. IX, BoE OV112/31.
- 16 Mamatey and Luža, *A History...*, p. 197n.
- 17 FO 371/C389/3886/12.
- 18 A decline in Czechoslovak exports was temporarily halted by the Franco-Belgian occupation of the Ruhr district of Germany in early 1923 and the consequent passive resistance of the German industrialists. While politically the Ruhr crisis alarmed the Czechoslovak leadership, the economic benefits, that orders for pig-iron and finished metal products were diverted to Czechoslovakia, were undeniable.
- 19 Clerk to Curzon, 14 July 1921, FO 371/5830/C14612/14612/12.
- 20 Philip L. Cottrell, 'Aspects of Western Equity Investment in the Banking Systems of East Central Europe', in Teichova and Cottrell, *International Business*, p. 314.
- 21 For instance, in 1914, France had held the equivalent of £35 million in Austro-Hungarian state bonds and railway securities, which was at least equivalent to similar combined holdings of the British and the Germans together. (Teichova and Cottrell, *International Business*, p. 347.)
- 22 Clerk to Curzon, 14 July 1921, FO 371/5830/C14612/14612/12.
- 23 Memorandum by Bruce Lockhart, enclosed in Clerk to Curzon (Despatch no. 200), 18 August 1921, T 160/91/3277/1.
- 24 A valuable account, based on Foreign Office documents, of the history of how the loan negotiations affected Anglo-Czechoslovak relations is given, in Harry Hanak, 'British Views of the Czechoslovaks from 1914 to 1924', in Schmidt-Hartmann, and Winters, *Großbritannien, die USA und die böhmischen Länder, 1848–1938*, pp. 98–101.
- 25 For further biographical details, see note no. 74 in section (I) 2.3.2.
- 26 Orde, *British Policy...*, p. 138.
- 27 Anne Orde, 'Baring Brothers, the British Government and the Czechoslovak State Loan of 1922.' *English Historical Review* 106, (1991): p. 29.
- 28 Memorandum by Bruce Lockhart, enclosed in Clerk to Curzon (Despatch no. 247), 14 October 1921, T 160/91/3277/1.
- 29 *Loc. cit.*

- 30 Enclosure in Clerk to Curzon, 21 October 1921, *DBFP*, I/XXII, doc. 392, pp. 450–52.
- 31 Spencer-Smith to Lockhart, 1 November 1921, Baring Brothers and Co. Ltd. Archives, quoted in Orde, *British Policy...*, pp. 140–41.
- 32 See section, (I) 1.4 on the history of the Karlist coup attempts.
- 33 For further details, see section (I) 2.2.
- 34 Clerk to Curzon, 29 March 1923, FO 371/8584/C5951/5951/12.
- 35 Former Minister of Finance, succeeding Cyril Horáček, in the first Tusar cabinet (July 1919 to May 1920).
- 36 For biographical details, see note no. 214 in section (I) 2.3.6.
- 37 Lockhart to John Cecil (First Secretary at Prague), 17 August 1922, Cecil to Clerk, Clerk to Curzon, 18 August, FO 371/7394/C11832/9755/12.
- 38 Clerk to Curzon, 17 August 1922, marked: 'Please transmit by quickest possible means [...] to Bark,' FO 371/7394/C11709/9755/12.
- 39 Chairman of the Czech Agrarian Party since 1909.
- 40 'Memorandum on the Anglo-Czecho-Slovak Bank and Its Connection with the Czecho-Slovak Agrarian Party', by Lockhart, enclosure in Clerk to Curzon, 30 August 1922, FO 371/7394/C12459/9755/12.
- 41 *Loc. cit.*
- 42 The interrelated nature of finance and politics in Czechoslovakia had a complex impact on Czechoslovak-Austrian relations. Almost simultaneously with the above cited manifestations of jealousy towards Viennese banking competition, Beneš was going out of his way to help Austria find a secure financial foothold as an independent state in Central Europe. The Treaty of Lány (discussed in section (II) 3.10) was intended as a lever towards building a new Austrian republic, while the protective instincts of the Czech leader were directed against any surviving influence that Vienna may have retained from its role as a pre-war imperial centre of finance and trade.
- 43 'Memorandum on the Anglo-Czecho-Slovak Bank and Its Connection with the Czecho-Slovak Agrarian Party', by Lockhart, enclosure in Clerk to Curzon, 30 August 1922, FO 371/7394/C12459/9755/12.
- 44 Clerk to Curzon, 29 March 1923, FO 371/8584/C5951/5951/12.
- 45 Bark to General Sir Herbert Lawrence (banker and director of the Vickers Company) and Norman, Hotel Ritz, Budapest, 3 and 5 November 1925, BoE OV112/1.
- 46 Norman to Niemeyer, 10 December 1925, containing an assessment by Spencer-Smith of a conversation recorded by Aveling (Central Department), 4 November, BoE OV112/20, fol. 196 A.
- 47 BoE OV112/20, fol. 196 D.
- 48 League of Nations, *Financial Reconstruction of Hungary, Agreements drawn up by the League of Nations*, Geneva, C.185M.53, 1924, p. 25, BoE OV33/76. Also see section (I) 2.3.5.

- 49 In Czech *liberací dluh* also referred to as *príspevek za osvobození*, literally: 'contribution to the liberation.'
- 50 BoE OV112/1, fol. 40. Slavomír Michálek's biography of Štefan Osuský (Czechoslovak Minister in London 1919 to 1920, later Czechoslovak member of the Reparation Commission) contains the figure of 742,018,050 gold francs as Czechoslovakia's share (about half of the total) of the liberation debt. (Slavomír Michálek, *Diplomat Štefan Osuský, 1889–1973*, [Bratislava VEDA, 1999], p. 61.) *The Morning Post* reported 750 million gold crowns. ('Yugoslavia 200 millions, Romania 235 millions, Poland about 190 millions.') (*The Morning Post*, 19 December 1923.)
- 51 *The Times*, 18 March 1924. Earlier, *The Daily Telegraph* had reported plans to allow the Little Entente countries 'to make no payments in respect of Liberation Bonds so long as Hungary is exempted from reparations payments.' (*The Daily Telegraph*, 10 October 1923)
- 52 Peterson to Chamberlain, 19 December 1924, FO 371/9674/C19243/119/12.
- 53 Niemeyer to Chamberlain, 13 November 1924, FO 371/96/74/C17219/119/12.
- 54 Peterson to Chamberlain, 12 December 1924, FO 371/9674/C18862/119/12.
- 55 Peterson to Chamberlain, 19 December 1924, FO 371/9674/C19243/119/12, Howard Smith's minute, 29 December, Lampson's, Crowe's and Cadogan's minutes, 30 December.
- 56 Michálek, *Diplomat Štefan Osuský...*, pp. 59–72.
- 57 See section (I) 2.3.4.
- 58 Member of the Board of the Anglo-Austrian Bank to Executive Committee of the Anglo-Austrian Bank, London, copy to Norman, 7 June 1923, BoE OV112/1.
- 59 Lockhart to Clerk, 8 June 1923, BoE OV112/1.
- 60 Anne Orde, *Baring Brothers*, pp. 35–37. Also see section (I) 2.3.4.
- 61 The words 'the Bank' were underlined on the Bank of England copy (probably by Norman), and the question 'What Bank?' was written on the margin, implying that Beneš's reference may be interpreted as meaning either the Anglo-Czechoslovak or the Bank of England, as he was, in fact, cold shouldered by both of these institutions.
- 62 Clerk to Curzon, 14 August 1923, Curzon to Treasury, Treasury to Norman, BoE OV112/1.
- 63 See section (I) 2.3.4. On 7 June 1923 the Barings Bank sent a telegram to the Banking Office of the Czechoslovak Finance Ministry, declaring that the second tranche of the 8 per cent loan will not be looked upon with favour by the British government 'so long as Czechoslovakian Government by its attitude before Reparations Commission continues to debar economic rehabilitation Hungary.' (BoE OV112/1; BoE OV33/70)
- 64 Words underlined by Norman.
- 65 Clerk to Curzon, 14 August 1923, BoE OV112/1.
- 66 *Loc. cit.*

- 67 The Liberal-Roman Catholic association of convenience, yet another twist in the unorthodox alliances that characterised Czechoslovak politics, could be explained by the secondary role that Catholicism played in Bohemia, whose instincts, in contrast with Slovakia, were Protestant or atheistic.
- 68 'Enclosure no. 1 to Dr. Simon's letter,' 7 June 1923, BoE OV112/1.
- 69 Norman to Niemeyer, 1 April 1924, BoE OV112/1. Niemeyer confirmed that the Czechs 'repaid the whole of their Wheat Credit (which was at one time to be repaid out of a London loan).' However, in the Treasury's opinion, they still owed 'a Relief Credit due January 1925 of £473,596 on which they are paying interest (6 per cent) regularly' and 'some £815,000 in respect of the repatriation of Czech prisoners of war from Siberia.' (Niemeyer to Norman, n.d. BoE OV112/1.) For further details, see section (II) 4.5.
- 70 Norman to Revelstoke (director of the Bank of England), 16 May 1924, BoE OV112/1, fol. 50.
- 71 The price of issue of the Czechoslovak sterling bonds was 96½. Simultaneously, an issue was made in the United States of \$9,250,000 and in Amsterdam of £200,000 of the same bonds. This represented the balance of the loan of £10,000,000 authorised by laws no. 470, dated 19 December 1921, and no. 110, dated 31 March 1922, the first part of which had been issued in April 1922.
- 72 The price of the existing bonds, which, according to Treasury's reports, included about six weeks of accrued dividend, closed at 98¼ on 16 May 1924.
- 73 BoE OV112/1, fol. 51.
- 74 *The Times*, 19 November 1924.
- 75 Clerk once again defended the arrangements. He told the Czechoslovak Foreign Minister that the loan 'secur[ed] for the growing Czechoslovak State the possibility of the advice and friendship of those who possessed the widest experience and highest standing in world finance,' and 'regret[ed] that almost every subsequent step in the financial policy of the country had seemed to neglect this incalculable advantage which [Beneš's] negotiation of the Baring Loan had secured for it.' (Clerk to Chamberlain, 4 December 1924, FO 371/9677/C18523/918/12.)
- 76 Adams to Clerk, Clerk to Chamberlain, 8 March 1926, FO 371/11232/C3321/-3321/12.
- 77 1.5 billion of these were three months' bills, the redemption of which the Czech treasury linked up with capital levy. 6.5 billion represented treasury bills of one, two and three years, of which the Banking Office of the Treasury managed to redeem 2 billions through a credit in foreign currencies.
- 78 Bark to General Sir Herbert Lawrence (banker and director of the Vickers Company) and Norman, Hotel Ritz, Budapest, 3 and 5 November 1925, BoE OV112/1.
- 79 Adams to Clerk, Clerk to Chamberlain, 8 March 1926, FO 371/11232/C3321/-3321/12.
- 80 The latest example was that of the Zemska Banka proceeding on behalf of a number of municipalities.

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- 81 G. J. H. Lloyd to Norman, 30 June 1926, BoE OV112/1. The government of Czechoslovakia issued permits only in exceptional cases, for the stabilisation of the rate of exchange, to finance the production of export goods for export, and for minerals, machinery etc., which could not be obtained or manufactured at home.
- 82 Strong to Norman, 25 October 1922, BoE OV112/20.
- 83 Norman to Strong, 25 October 1922, BoE OV112/20.
- 84 Memorandum, 14 December 1922, BoE OV112/20, emphasis by Norman.
- 85 Emphasis by Norman.
- 86 The governor informed Strong of his decision on the same day. (Norman to Strong, 14 December 1922, BoE OV112/20.)
- 87 Norman also told his visitors that he had heard that 'Czech efforts had been made to secure loans from London County Westminster & Parr's Bank for Czecho-Slovakia, and that is a breach of exclusive arrangements.' Pospíšil stated that whoever was behind those efforts 'must have been totally unauthorised to represent his government in such matters.'
- 88 Memorandum, 6 February 1923, BoE OV112/20.
- 89 Newspaper cutting, 4 March 1923, in BoE OV112/20.
- 90 Formula used by Norman in a letter (dated 10 January 1924) to W. H. Clegg, Governor of the South African Reserve Bank, in connection with planned stabilisation schemes which used sterling as reserve currency. (BoE OV34/117) For more detail, see section (I) 2.3.8.
- 91 The text, dated 13 March 1925, was most likely to have been compiled by Alexander Annan Adams, the British Commercial Secretary at Prague since October 1924.
- 92 Mamatey and Luža, *A History...*, p. 197.
- 93 Could be increased to 15 million. ('The Development of Czechoslovakia's Currency Policy', issued by the Czechoslovak National bank, 1926, p. XIX, BoE OV112/31.)
- 94 Dodd to Chamberlain, 14 March 1925, BoE OV112/20, fols 161–66. A 5 per cent margin was admitted. According to the draft legislation, once two-thirds of the total capital of the bank has been paid up, the ratio of the gold reserve to currency issued will be 20 per cent for the first year. For each succeeding year, up to the fifteenth, 1 per cent must be added to this ratio, so that, if all went well, after sixteen years of existence (the bank's original charter was issued for fifteen years), the bank should show a gold reserve ratio of 35 per cent. That level, however, was never achieved.
- 95 Čechoslovakiske Nationalbank, *Zehn Jahre Čechoslovakiske Nationalbank*, Prague, 1937, quoted in Schubert, 'The Emergence of...', p. 226n. According to the bank's own brochure, 'The obligation to maintain the cover [...] is not absolute, as a breach of the duty is only subject to a tax on a progressive scale (Art.

- VIII. § 30)' ('The Development of Czechoslovakia's Currency Policy', issued by the Czechoslovak National Bank, 1926, p. XV, BoE OV112/31.)
- 96 Until November 1929, the Czechoslovak crown, despite its comparative stability in relation to the gold-based dollar, remained a paper-based currency, was not considered either to be on the gold standard or the gold exchange standard, but remained pegged to the dollar at the rate of 2.9650 U.S. cents. It was the creation of the Bank for International Settlements which necessitated the *kruna* to be formally put on a gold basis, as only central banks with gold-based currencies were allowed to become shareholders. In 1929, the crown was defined in terms of gold equivalent to 44.58 milligrams of gold, which left the existing rate to the dollar unchanged. (Schubert, *The Emergence of...*, pp. 218–19.)
- 97 Bark to General Sir Herbert Lawrence (banker and director of the Vickers Company) and Norman, Hotel Ritz, Budapest, 3 and 5 November 1925, BoE OV112/1.
- 98 See sections (III) 6.5 and 6.6.
- 99 Engliš, a professor of economics at the University of Prague, and on the board of the Anglo-Czechoslovak Bank, had been Minister of Finance before, and was offered the post again in 1923, but declined it. (BoE OV112/20.) Bečka was brother-in-law of the late Minister Rašín, and 'wholly imbued with his financial ideas, head of the Administrative Council of the Živnostenska Banka, a National-Democrat.' (Clerk on Bečka, FO 371 8584/C5951/5951/12.)
- 100 Harvey was comptroller of the Bank of England from 1925, a position into which his earlier function of Chief Cashier had been transferred. (Clay, *Lord Norman*, p. 299.)
- 101 Schubert, *The Emergence of...*, pp. 218.
- 102 BoE OV112/31. (Selective quotation.)
- 103 According to the Czech bank's own summary of rules, this tenth member, unlike the others 'need not be a Czechoslovak subject'. ('The Development of Czechoslovakia's Currency Policy', issued by the Czechoslovak National Bank, 1926, BoE OV112/31.)
- 104 A kind of executive committee of the Czechoslovak bank.
- 105 In the bank's 1926 publication, the footnote is added: 'Since the passing of the Act [25 April 1925] the idea of raising a large foreign loan for currency regulation purposes has been abandoned. It is now proposed merely to allow of a foreign loan in the form of a revolving credit.' ('The Development of Czechoslovakia's Currency Policy', issued by the Czechoslovak National Bank, 1926, p. XV, BoE OV112/31.)
- 106 Norman to Strong, 9 April 1923, Strong-Norman Correspondence, BoE G35/4.

CHAPTER 5

Britain and the Rebirth of an Old State

5.1 RESURRECTION OR CREATION

Throughout the 19th century, the Great Powers found themselves repeatedly confronted with the Polish question. Since Lord Castlereagh's suggestion that the historic *Rzeczpospolita* be re-created within its 1772 borders was turned down,¹ British interest in the rebirth of Poland had remained minimal. Poland continued to be an anomaly in so far as it was regarded as one of the historic countries of Europe, but, apart from the peculiar position of the Congress Kingdom, it had no territorial extent or government with which to deal. During the fifty years preceding the outbreak of the First World War, the Polish question virtually disappeared or was greatly reduced in the minds of European statesmen. Polish leaders themselves were strongly divided as to the possible outcome they desired to see after the onset of war in August 1914. Since this was a war in which two partitioners, Germany and Austria-Hungary, faced a third, Russia, the internationalisation of the Polish question was inevitable.

The Polish Socialist Party, soon to be led by Józef Piłsudski, and the National Democratic Party, organised mainly in Prussian Poland under Roman Dmowski, had been founded in exile. While different in political outlook, these leaders shared the ambition to instil a nationalist zeal among the Poles who suffered from the phenomenon called *trójlojalizm*, i.e. a tacit acceptance that their country existed as parts of three different European empires. Dmowski believed in assiduous political work, and that reforms within Russia were a context in which the salvation of the Poles could be achieved. In contrast, Piłsudski was a soldier who had no illusions about the Russians. He wished, by using Austria-Hungary as his base, to achieve the freedom of the Poles through armed insurrection.² To prevent Piłsudski and his force from turning against the Central

Powers, the Germans arrested and imprisoned him in the fortress of Magdeburg.

Dmowski, the leader of the nationalist Right, who left the Congress Kingdom after it had been conquered by the Central Powers in 1915 and became chairman of the National Polish Committee (*Komitet Narodowy Polski*), which moved its headquarters to Paris following the Bolshevik revolution, was the first to broach the subject of complete national independence for Poland with Western support.³ Among the leaders of the KNP were the principal Polish representative in Great Britain, Count Władysław Sobański, the renowned pianist Ignacy Paderewski, who represented the Polish movement in the United States, and Konstanty Skirmunt, a former Lithuanian landowner in tsarist Russia, whose headquarters were in Paris. The vice-chairman, Count Maurycy Zamoyski, later Polish Minister in Paris and Foreign Minister, had come from one of the historic families of landed aristocrats in Poland. With Piłsudski in confinement, Dmowski set out from the summer of 1917 to marshal the Polish army to gain support from the West. Paderewski assisted by persuading Polish Americans and other émigrés to form an army under the command of General Józef Haller and to return to Europe to fight the Germans. The volunteers stood ready in France to enter the fray in Poland, and were only stopped by a British warning that sending Haller's army to Poland before the armistice was undesirable because of the 'fragile state of relations along the as yet undefined German-Polish frontier.'⁴

Both Britain and France found themselves in an invidious position with regard to the Polish issue. As Clemenceau admitted, 'we had started [the war] as allies of the Russian oppressors of Poland, with the Polish soldiers of Silesia and Galicia fighting against us.'⁵ Only a handful of British officials in Whitehall concerned themselves with the future of the Poles in the early stages of the war. By 1915, a 'troika'⁶ of experts on Poland emerged, whose members were Sir George Clerk,⁷ John Duncan Gregory,⁸ and Sir Eric Drummond.⁹ As a member of this group, dissenting from the New Europe circle, with whom he was associated, Clerk was perhaps the first British politician to suggest cautious support for the Polish cause.¹⁰

The Tyrrell-Paget memorandum, the first official paper on post-war British desiderata in Central Europe, only mentioned Poland marginally

in a scheme where 'Bohemia be linked up to Poland.'¹¹ But the idea of an independent Poland, even under a Russian grand duke as suggested by Tyrrell and Paget, was disliked by Balfour who foresaw in it the future problems of a France deprived of the benefit of Russian assistance when the need arises.¹² As late as December 1916, R. W. Seton-Watson, head of the New Europe group, arch-proponent of the cause of national self-determination in Central Europe, was opposed to the idea of fully fledged independence for Poland. In a letter to Leon Litwinski, Secretary of the London-based Polish Information Committee, Seton-Watson, while pledging to 'do everything in my power to further the Polish cause,' made clear that he was 'not prepared to give [his] support to a definite propaganda in this country in favour of independence.'¹³

The thinking both in Paris and London underwent radical changes in consequence of the revolutions in Russia. The leading members of the Entente were terrified by the prospect of a link-up between Germany and the new Russia. The Quai d'Orsay initiated the idea of the resurrection of a large Poland, possibly joined to the Habsburg Monarchy, a new eastern barrier and counterweight to Germany.¹⁴ While a fairly crisp image had taken shape in the Quai d'Orsay of a future Poland, the British Foreign Secretary, Balfour, was still not convinced of the merits of the Polish case. Even though the fear of collapse on the eastern front created a sense of urgency in the British government, Lloyd George's speech to the Trade Unions on 5 January 1918, fell short of the French plans when he sanctioned the creation of a Poland 'comprising all those genuinely Polish elements who desire to form part of it.'¹⁵ The Foreign Office was likewise adamantly opposed to the recreation of Poland within its historic boundaries and encroaching on Russian territory, and protested against French support for any such scheme. Even President Wilson, in his famous list of Allied and Associated desiderata declared that '[a]n independent Polish state should be *erected* which should include the territories inhabited by indisputably Polish populations.'¹⁶ In addition to the difficulties posed by the Polish ambition to resurrect a multi-ethnic state at the time of the general dismantling of European empires, some of the purely Polish territories that the British and the Americans were willing to grant to Poland lay in areas where German control could only be opposed by force, and neither the British nor the

Americans were prepared to assist the Poles militarily. Following the sudden end of the war, with haphazard references to Poland in the armistice, the initiative fell to the Poles themselves.

In the middle of November 1918, Piłsudski returned from German imprisonment to Warsaw where the nominally pro-German Regency Council speedily invested him with supreme military and political power.¹⁷ The Germans were not given a date for their withdrawal behind their 1914 borders and Piłsudski's army moved in.¹⁸ At this stage, the territorial definition of Poland was quite fluid. The Congress Kingdom, Western Galicia and parts of Prussian Poland, where an uprising had taken place in December 1917, could not be complemented by lands coveted by the Poles in Eastern Galicia, which was bitterly disputed between Ukrainians and Poles, and in the east where the disintegration of the old Russia had created a volatile situation. On the eve of the Paris Peace Conference, the Polish exponents of the rebirth of Poland also arrayed themselves in an anomalous pattern: Piłsudski, as Head of State and Commander-in-Chief of the armed forces, was a political opponent of Dmowski, chairman of the KNP which had been recognised by the Allied and Associated Powers as an exile committee, though not a government-in-exile, acting for a future Polish state. Adding to the confusion, a government was established in Poland in January 1919 to coincide with the convening of the Peace Conference under the premiership of Paderewski with Piłsudski as Head of State, and the Great Powers were invited to recognise this government.

5.2 POLAND'S BORDERS, THE FOREIGN OFFICE, AND THE BRITISH CABINET

5.2.1 *Dramatis Personae*

In contrast to unequivocal French support and conditional American sympathy, British policy towards the Poles alternated between ambivalence, hostility, and conditional goodwill. At the time of the Peace Conference, Britain's influence on the future of Poland was shaped especially by two civil servants of considerably dissimilar political outlook.

The first of these, Sir Esmé Howard, was a career diplomat who had become acquainted with Polish émigré groups and their desiderata while serving as British Minister in Stockholm from 1913 to November 1918. He was one of the first diplomats to whom it seemed, following a meeting with Dmowski's emissaries in May 1916, 'to be of the highest importance that we should take some action to make the Poles of the conquered Provinces understand that they can rely on us for the reestablishment of their ancient liberties.'¹⁹ Howard had also built close working relations with Sobański, the principal KNP representative in Britain, whose children attended the same Catholic public school as Howard's at Downside near Bath and became friends.²⁰ It is probable that Howard's generally favourable view of Dmowski and his followers contributed to the British recognition of the KNP as the official representatives of the Polish cause. Quite possibly because of the value of his experiences in Stockholm, Howard was hand-picked by Lord Hardinge to head the North European Section of the Political Intelligence Department in attendance at the Peace Conference. Howard was a seasoned diplomat who had previously served in Crete, Washington, Budapest, Berne and Stockholm, where he had learnt to accept that men in the centre of Whitehall made the decisions, while diplomats at foreign posts had often only been allowed walk-on roles. Therefore, he cherished this opportunity to be where the decisions were made, the very hub of the Foreign Office machinery. Yet, he had to be disappointed: according to his biographer, 'Howard's service as a member of the British Delegation at the Paris Peace Conference constituted the low point in his thirty years in the British Diplomatic Service.'²¹ His pro-Polish attitude, which stemmed from strong anti-Bolshevism, the fact that he was 'wedded to the principle of the balance of power in Europe,' and according to some, his Catholicism,²² was not rewarded by Lloyd George, who had crossed the traditional lines of British foreign policy-making by relying on personal advisers and experts of his choice, and 'seldom saw the papers on Poland.'²³

The other British expert who exerted decisive influence on the future of Poland was Lewis Namier, in many ways a novice among British officials. His position and background could not have been more different from Howard's. Namier, a descendant of a family of well-to-do Po-

lonised Jews, was born in Russian Poland as Ludwik Bernsztajn vel Niemirowski. Following studies at Lausanne University, he attended the London School of Economics, where he joined the Fabian Society. He entered Balliol College in 1908, changed his name first to Lewis Bernstein Naymier, then to Namier. Having received a first in Modern History, he became a naturalised British subject in 1913. Following a five-month army service, in 1915, thanks to the patronage of his friend in the Foreign Office, Eustace Percy, he was recruited to Wellington House, an intelligence organisation affiliated to the Foreign Office. In 1917–1918, he served in the Intelligence Bureau of the Department of Information, became a frequent contributor to *The New Europe*, and urged administrative improvements in the Foreign Office. His tasks involved gathering and analysing information related to Austria-Hungary, with special regard to Polish territories, and Polish émigré groups. Namier was appointed to the P.I.D. in March 1918, where he was to advise on Poland.²⁴ While Namier's qualifications made him appear as an excellent source of information and advice on Poland, he was less than suitable to provide unbiased evidence or recommendations. He had, before his tenure at the Foreign Office, developed a prejudice against the Poles. At the P.I.D., he became 'bitterly opposed to a strong and independent Poland,'²⁵ and by the time Poland regained her independence, in the words of Arnold Toynbee's word, he had become a 'Polonophobe.'²⁶ A clear indication of Namier's bias was the contrast between his bitter opposition to anything but the strictest ethnographic definition of Poland (at any rate along its eastern borders) and his espousal of the historic and economic principle for setting the borders of the planned Czechoslovak state.²⁷ When J. W. Headlam-Morley, the deputy head of the P.I.D., told Namier that 'nothing interferes so much with the value of your work as the feeling which you allow to appear that you have no sympathy with Poland at all,'²⁸ the admonition expressed widespread opinion. Even Paul Latawski, an author usually sympathetic to Namier, admits that Namier's memorandum entitled 'Remarks on "The Problems of Central and Eastern Europe,"' submitted in September 1917, contained 'manipulation of statistics in a way to worsen the Polish case.'²⁹ The sixteen-page 'Remarks' had been drawn up as part of the Foreign Office debate on Dmowski's territorial programme for Poland,

and it was in his critique of this programme that Namier first put forward his structured views on a future Polish state. Dismissing the population figures cited by Dmowski, Namier invoked the problems associated with the large minorities contained in the historic Kingdom of Hungary. He warned against any extension of Poland's frontiers east of the Congress Kingdom, which, he declared, amounted to 'Polish imperialist claims,' and, 'could end only making Poland another Hungary.'³⁰ Namier even espoused the Czechoslovak claims in the Czechoslovak-Polish dispute over Teschen where Poland had a solid ethnographic case.³¹ Yet his judgement in regard to Poland's Western and North-Western frontiers was much less rigorous. For instance, he considered Polish territorial claims to Danzig as something that 'might be reconciled [...] with ethnological justice'.³² It was predictable that Dmowski, the antithesis of Namier, would find contacts with the Polish adviser of the P.I.D. unpalatable. By the time Namier became a member of the P.I.D., he had acquired such a reputation for being a critic of Dmowski's KNP that, on learning about Namier's appointment, Dmowski went to London 'with a dossier against [Namier] to prove that he was a German or Austrian agent,' an allegation soon dismissed by Sir Eric Drummond.³³ In Namier's eyes Dmowski was an archetypal anti-Semite, who had organised a boycott of Jewish enterprises in Warsaw in 1912,³⁴ and who, in the opinion of Edvard Beneš, 'often exhibited rather ostentatiously his anti-Semitism.'³⁵ Dmowski, in turn, reacted angrily to the high-handed attitude of the Foreign Office adviser, once referring to him as that '*zydek Galicyjski*' (little Galician Jew).³⁶ While Dmowski and Namier traded negative comments on each other, there is no evidence that they ever met personally. It has been argued that the two politicians were not in the same category of weight and significance at the time of peacemaking: Namier was a 31-year-old minor official, while Dmowski, at 55, was a prominent leader of a de facto government-in-exile. Yet, Namier's influence on British policy was significant. While his judgement appeared to contain contradictory elements, his vision for Central Europe did not entirely lack consistency. Whether based on historic or ethnographic principles, he desired to see a stable system of states in a part of the world where Britain was not likely to retain a defining influence. On balance, his preferences were, partly due to his fear of a preponderant

Polish state, more anti-German and pro-Russian, and this accorded with the proclivities of many of his British colleagues. Although, instead of Namier, it was a member of the Intelligence Division of the Admiralty, Hamish J. Paton, who was chosen in February 1919 to replace Esmé Howard as the British expert on Poland in Paris, Paton, who had been Namier's contemporary at Balliol, was 'carefully and minutely [...] prime[dl]' by Namier 'by word of mouth in London' and in letters later 'with facts about the whole of new Poland's past and present entanglements' to avoid '[his] being passed over being exploited by [his] enemies.'³⁷ Namier was also able to get through to the Prime Minister via Headlam-Morley and Philip Kerr, which was quite a feat at the time for a P.I.D. advisor.³⁸ Headlam-Morley, who had mastered the diplomatic labyrinth and could reach the key actors of Lloyd George's political machinery, such as Sir Maurice Hankey and Philip Kerr, remained in close contact with Namier throughout the conference, and often acted as a conduit for Namier's views towards the Prime Minister. Namier also made one visit to the conference in April 1919, staying in Paris for sixteen days.³⁹ Whether through Headlam-Morley's mediation or through direct contact, Namier's mark was recognisable on British proposals for both the western and the eastern borders of Poland.⁴⁰

Another British expert whose 'path crossed that of Lewis Namier'⁴¹ during the Peace Conference was Edward Hallett Carr. Having joined the Foreign Office in 1916, and the Northern Department in April 1918, Carr was selected by Hardinge into the Foreign Office team that travelled to Paris. Prior to becoming British Secretary to the New States Committee, Carr had served as an assistant to Esmé Howard on the Northern Europe Section of the team.⁴² While the two got on well,⁴³ Carr was less enthusiastically committed to the Polish cause in principle than Howard was. As a consequence of his liberal world view, Carr was positively disposed towards the Polish desire to determine their future in freedom, and was among those who advocated the immediate official recognition of their state,⁴⁴ but he was also receptive to the needs of the Polish Jews, as attested by his interviews with Lucien Wolf, Secretary of the Joint Foreign Committee of the Jewish Board of Deputies and the Anglo-Jewish Association, and a special delegate to the Peace Conference.⁴⁵ To promote the case of Jewish minority rights in Poland, Wolf told Carr that Anglo-

Jewry as well as 'practical politicians generally' considered the Polish question 'far more important than Palestine.'⁴⁶ Still, Carr, unlike Namier, was not emotionally biased towards the Jews. In Carr's assessment, any member of a minority, whether Jew or German, who had been 'born in Poland or the territories now ceded to Poland [...] should be allowed to [...] obtain Polish citizenship.'⁴⁷ In Carr's eyes, Namier's participation in the deliberations on Poland was one unrelieved struggle to save the various minorities living on territories coveted by the Poles from being annexed by them.⁴⁸ However, as the Peace Conference progressed in an atmosphere of creeping cynicism about the concept of self-determination, and amidst the Polish campaigns to seize Teschen, Eastern Galicia, and the advance into the Ukraine, Carr moved closer to Namier's attitude. As he recalled decades later, he had come to regard that the Poles had played the part of a 'strong and potentially predatory power' in East-Central Europe 'right down to 1925.'⁴⁹

5.2.2 *British Policy during the Peace Conference*

Between 3 June 1918, when the British declared their support for the creation of an independent Poland, and 15 March 1923, the date of the recognition of the eastern frontiers of Poland by the Conference of Ambassadors, British politicians continually grappled with the territorial disputes surrounding the re-created state. In spite of the differences of opinion among British experts, the British delegation awaited the opening of the Peace Conference with a coherent set of proposals. Expecting the future revival of both Germany and Russia as strong powers, they agreed that Poland should be as homogeneous as possible, while capable of resisting pressures from both east and west. Therefore, while it should have access to the sea, it should be denied the port of Danzig, which was ethnically German.⁵⁰ Instead, the adjacent port of Neufahrwasser must be granted to the Poles as compensation. The recommendation originated from the British historian Professor Charles Oman, who advised the Foreign Office on the issues of Polish boundaries. He also pointed out that Danzig was not on the sea, while the docks lay 'on the "new" tributary of the Vistula, at Neufahrwasser.'⁵¹ To reduce German irredentism, the idea of keeping East Prussia German was born.

Poland should receive that part of German Silesia which is mainly Polish speaking, but to prevent the transfer of territories from running into difficulties—an idea mainly advocated⁵² by Lloyd George—plebiscites should be arranged to allow local populations to choose the country in which they wished to live.

While the position on the eastern borders was more difficult to formulate, by early January 1919, Howard, the responsible British expert, was ready with a proposal on that account as well. Howard's recommendation to allow substantial Polish incursion into Russia was informed both by his Polonophil attitude and the fear from the proximity of the Russian Bolshevik régime. Howard wished to arrange the transfer of territories in an orderly fashion in consensus with all the Polish factions. For this purpose, in December 1918, he appointed a delegation of British experts and diplomats to hold discussions with Piłsudski. The members were Colonel Harry Wade, the military attaché at Copenhagen, Richard E. Kimens, a former Consul in Warsaw and future British Commercial Secretary there, who spoke Polish and had good relations with right-wing circles, and Rowland Kenney, a socialist member of the P.I.D. with left-wing contacts in Poland.⁵³ Writing from Vienna, Kimens and Kenney pointed out that the danger of a Bolshevik outbreak in Hungary made it imperative that Britain 'come to some agreement with Poland.'⁵⁴ On the eve of Béla Kun's communist coup in Budapest, but loath to see the position of Poland enhanced, Namier dismissed the report: 'As to Bolshevism in Hungary, there really does not seem much danger of it,' he minuted.⁵⁵

Following Howard's refusal to participate in a planned meeting with Russian Bolsheviks at Prinkipo in late January 1919, he was appointed to the special Inter-Allied Mission to Poland, which was headed by the former French Ambassador to Russia, Joseph Noulens. Howard was replaced in Paris by Hamish Paton. Before leaving for Warsaw, between 3 and 8 February, Howard had talks with Professor Robert Lord⁵⁶ to determine Poland's frontiers with emphasis on the east. Their proposal left Poland's western frontier unchanged with a slight adjustment in Poland's favour. Pending the deliberations of an international commission, a provisional border was recommended, which divided Eastern Galicia by a line running west of the city of Lvov (Lemberg), giving the Poles the western portion and the Ukrainians the eastern parts. The linguistic

lines would govern with regard to the Polish border with Eastern Prussia, an inter-Allied commission would be sent to Teschen. Danzig was awarded to Poland connected by a corridor to the rest of the country, which severed East Prussia from the rest of Germany. By giving his name to this solution, Howard made a *volte face* as he had earlier recommended the Neufahrwasser solution.⁵⁷ This set of recommendations was intended to create a strong Poland.

On 12 February 1919, Howard arrived in the Polish capital with the Inter-Allied Mission, which included Lord and General Adrian Carton de Wiart, the junior British delegate.⁵⁸ One of the tasks of the delegation was to enhance the work of the Wade mission⁵⁹ by obtaining the cessation of hostilities. Following a meeting with Piłsudski, Carton de Wiart travelled to Lvov to try to arrange a ceasefire there, French and Italian members tackled the issue of Teschen, while Howard and others talked to Germans and Poles in Poznań. Yet, in the end, none of the objectives of this Allied expedition were fulfilled. Having 'found the German delegation [at Poznań] extremely difficult,'⁶⁰ Howard turned increasingly uncritical of reports of blameless Poles and their Germans tormentors. Howard, who held the view that Poland's eastern borders should provide the new state with economic resources and defensible frontiers, was disheartened to find that during his absence decisions had been made in Paris which contradicted the Howard-Lord agreement. Complaining to Balfour on 6 March 1919, he wrote: '[see] particularly Mr. Namier's minute. He apparently did all he could to saboteur Poland.'⁶¹

Reports of pogroms in the Pinsk area generated an extensive series of minutes by Namier on dispatches, contrasting sharply with Howard's optimistic accounts of the Polish government's ability to rein in its agents.⁶² In the Supreme Council, Lloyd George criticised as 'scandalous'⁶³ the report of the Noulens mission for proposing to assign up to two million Germans to Poland.⁶⁴ The Peace Conference eventually resolved to prevent Danzig and Mazuria and Southern Lithuania from joining Poland, though ordered plebiscites to be held in East Prussia and Upper Silesia. From 22 April, Howard had definitively been struck off the Polish commission in Paris, which made him conclude that anyone connected with the Inter-Allied Mission had become discredited in the eyes of the establishment. When new fighting broke out between the

Poles and the Lithuanians over the city of Vilna (Wilno–Polish; Vilnius–Lithuanian), however, even Howard disapproved of the Polish government taking matters into their own hands.⁶⁵

Both Howard and Carton de Wiart, who was also pro-Polish, had understood that an increasingly important part was played in the British judgement of Poland by the fact that the resurrected country 'had been earmarked as [part of] the French sphere,'⁶⁶ thus representing yet another sticking point in the worsening relations between the two victorious Western powers. The French supported the Polish territorial ambitions and the deployment of Haller's army to advance the Polish cause against the Germans, the Ukrainians and the Russians. Lloyd George was opposed lest the position of Dmowski should become unduly enhanced by the troops. In the event, the British could only delay the arrival of Haller's army, which was deployed on the Ukrainian front in late April 1919.⁶⁷

5.2.3 *Plebiscite in Upper Silesia*

By his advocacy of a plebiscite in the case of Upper Silesia, contravening the promises made to the Poles in the draft treaty handed to the Germans on 7 May 1919, Lloyd George got his way by pretending to occupy the middle ground. The local demonstrations, fear of the creation of more German irredenta, and that the German government might fall if the conference simply gave way to French support for the Poles influenced Lloyd George's policy. Some authors even suggest that the British Prime Minister, who disingenuously claimed towards the French, while telling his British colleagues the opposite, that his personal view was that the plebiscite would undoubtedly result in Poland's favour, engineered the referendum in order to prevent the French from expanding their influence over the coal resources of Central Europe.⁶⁸ Following protracted discussions with Clemenceau and Wilson in May and June 1919, and hearing the opinion of the Territorial Commission for Polish Affairs,⁶⁹ it was decided that, in accordance with Lloyd George's wishes, a referendum would be held in the *Regierungsbezirk* Oppeln in Upper Silesia.⁷⁰ The results would be measured by commune, and a simple majority would be required in each one. Article 88 of the Treaty of Versailles, which provided for the vote, also stipulated that German troops and officials leave the

area and that the workers' and soldiers' councils and paramilitary organisations disband.⁷¹

The plebiscite was eventually held on 20 March 1921, preceded and followed by three Polish uprisings. According to reports reaching London, the unpopularity of the British government among the Poles was reaching its climax at this time. Hostile demonstrations were held in front of the British Legation in Warsaw. Max Müller, the British Minister, stressed, however, that 'the hatred of the Poles has all along been directed not against the English nation, but rather against His Majesty's Government and especially Mr. Lloyd George, who was looked on as immutably prejudiced against Poland.'⁷² The vote itself showed a mixed picture. In Leobschütz, for instance, no-one voted for joining Poland, while in Pless 74 per cent did. 59.6 per cent in total voted for Germany.⁷³ German majorities were mainly drawn mainly from urban voters, while economically successful Poles apparently 'associated material and social progress with German-ness itself,' and turned to Germany for continued affluence. There was little evidence to suggest that terrorist activity on either side influenced the vote.⁷⁴

The result of the plebiscite was announced on 7 May 1921. It was up to the Western politicians to decide the meaning of the numeric results. One factor that certainly influenced British policy was that Upper Silesian industry was bound up with private British interests in the British Black Country. As the British learnt from their intercepts of the telegraphic traffic of the Polish Legation in London, the Poles knew that '[w]hile the Italians and British are for giving POLAND only PLESS [Pszczyn] and RYBNIK and making some frontier rectifications the French would give her the whole of the industrial area and supply allied technicians and controllers.'⁷⁵ The positioning of the Allied troops as they occupied Upper Silesia following evacuation by Polish insurgents provoked tension and speculation in Warsaw. The Poles pleaded with their legation in London to send reliable news to end the rumours: 'Please supply information,' telegraphed one Polish Foreign Ministry official.⁷⁶ In the meantime, Beneš held talks in London and told the Polish Minister there that he worked to promote Polish interests in Upper Silesia. Wróblewski, the recently appointed Polish Minister, was so incredulous that he 'checked the value of [Beneš's] assertions with French Ambassadors

sador,' who said that while Beneš may be valuable as a disinterested mediator, his 'attempts to act without (?previous consultation with) the Polish delegate will not advance matters.'⁷⁷

By the time Lloyd George, accompanied by Curzon, travelled to Paris in August to agree on a frontier on the basis of the plebiscite, his desire to see the industrial triangle returned to Germany had become well known. When he was suddenly recalled to London to meet the Irish crisis which had come to boiling point at that time, the Italian Foreign Minister, Torretta, mentioned the possibility of arbitration by the League of Nations.⁷⁸ Perhaps pressed by time, Lloyd George embraced the idea. With characteristic nonchalance, he told Lord Riddell: 'The Silesian question is to be referred to the League of Nations. What do you think of that?'⁷⁹ This was the first time that a major dispute was referred to the League Council, which was composed of the representatives of eight states,⁸⁰ and there was little confidence in the new organisation's ability to deal with it successfully. Lloyd George was confident that representatives of the organisation would be swayed by his arguments. Lloyd George's stance on the question had been well known, among other sources, from a speech he had made to the British House of Commons. Referring to the uprising recently headed in Upper Silesia, with some French support, by the Polish insurgent leader, Wojciech Korfanty, the Prime Minister told the British House of Commons on 16 August 1921 that the Poles introduced a 'system of brigandage in Central Europe.'⁸¹ While the League proved less malleable than Lloyd George might have hoped, bad blood between the British and the Poles appeared unavoidable. Informing the Polish Legation in London at the end of June 1921 about the cessation of Korfanty's insurrection, a Polish Foreign Ministry official emphasised 'the unpopularity [in Upper Silesia] of the new British troops from the RHINE.'⁸²

On 29 August, unfettered by cabinet instructions, Arthur Balfour travelled to Geneva to attend the Council meeting summoned to consider the case, and remained in close contact with the committee⁸³ appointed to deliberate on the issue.⁸⁴ Their findings were made public on 12 October. The border, while securing 70 per cent of the land and 57 per cent of the population for Germany, awarded Pless, Rybnik, most of Tarnowitz and Lublinitz, and about two thirds of the so-called industrial triangle, to the

Poles.⁸⁵ The decision, which divided closely interdependent districts and left dissident minorities on the wrong sides of the border, left the greater part of the wealth of the district on Polish territory, and was thus seen as a victory of sorts for the Poles. This rare instance, therefore, of the submission of territorial settlement to a genuine test of popular self-determination, which was denied in the majority of other districts in Central Europe,⁸⁶ while at one point offering an interval of calm in Franco-British and Anglo-Polish relations, did little to allay the tension between Poland and Germany for the rest of the interwar years.

5.2.4 *The Curzon Line*

While the fighting in Eastern Galicia, Lithuania and the rest of the eastern territories made it impossible to prejudge the situation, the official British views were known to the Poles. In connection with Eastern Galicia, Lloyd George declared that 'no one thought seriously about the country except as being part of Russia.'⁸⁷ Plebiscites in the east were explicitly forbidden, the Peace Conference reserving the right, under Article 87 of the Treaty of Versailles, to establish the eastern borders of Poland.

There are differences of opinion in regard to the precise origins of the best remembered of British recommendations on the shape of the new Poland, the so-called 'Curzon Line.' Paul Latawski, relying on Norman Davies, suggests that the line, in so far as it conformed to the provisional British frontier proposal of 8 December 1919,⁸⁸ 'epitomized Namier's vision of the proper eastern boundary for Poland [...] and he was certainly its main inspiration.'⁸⁹ The above authors' claim is mainly based on the fact that the salient features of the line appeared in Namier's memorandum entitled 'Remarks on the Problems of Central and Eastern Europe' submitted as early as 1917. However, in Davies's view, the line assigned Lvov and its environs to Soviet Russia due 'most probably [to a] clerical error committed in London by diplomatic staff using maps and notes prepared earlier by L. Namier,'⁹⁰ and was not, therefore, the result of conscious policy. Whatever the case may be, the line, in the way it came to be used in diplomatic exchanges, had little to do with the Foreign Office, or indeed with Curzon himself. The Peace Conference took as a basis of its resolutions on Poland's eastern borders the advice given to

them by the President of the émigré *Conférence Politique Russe*, Sergei Sazonov. Their report stated that the old administrative border of the Congress Kingdom could serve as a guideline for the ethnic frontier between Poland and Russia. Submitted on 25 September 1919, the report was accepted as a recommendation for a state border by the French and the Americans. The Supreme Council's declaration, adopted on 2 December and published on 8th, without prejudging the final settlement, incorporated this line into its set of provisions.⁹¹ The Poles, seeking to create a buffer zone, drove deep inside the Ukraine and occupied Kiev in early May 1920. The Poles entered into an agreement with Semen Petlyura, the Head of the Ukrainian Directoire on 21 April 1920, in accordance with which their countries would federate, and Poland would liberate the Ukraine. In pursuit of this agreement, Piłsudski launched an attack in late April and occupied Kiev on 6 May 1920.⁹² In June, the Russian Bolshevik forces began to counter-attack, dislodging the Poles from the Ukraine and swiftly progressing to the gates of Warsaw. It was at this time that Stanisław Patek, who, as Polish Foreign Minister before the fall of Paderewski's government, had already visited London in 1920, and Władysław Grabski, who had held many portfolios, also a previous and would-be Prime Minister, appealed for Western assistance.⁹³ They found the West divided; a gap existed between France and Britain on the one hand and also between and within domestic parties.⁹⁴ In Britain the mood against the Poles hardened further following the visit in May of a Soviet trade delegation headed by Lev Kamenev and Leonid Krasin, who had made contacts that initiated the 'Hands off Russia' campaign in Britain. The New Europe welcomed the delegation, urged 'a change of policy [...] especially in Poland,' declared that 'negotiations with Lenin [do not] make us accomplices in Bolshevik crime,' and that 'Krasin's visit is only the first step towards fuller negotiations.'⁹⁵ In Max Müller's words:

The Poles have [...] succeeded in forfeiting the goodwill of the very classes in the United Kingdom which might have been expected to give them support [...] it was due to the Polish crisis of 1920 that the "Council of Action" was formed in London, with the [purpose] of preventing His Majesty's Government from considering war against Russia on behalf of Poland.⁹⁶

Ernest Bevin, assistant General Secretary of the General Workers' Union, even threatened a general strike in case the British assisted the Poles. It was against such background that Grabski met Lloyd George and Curzon at the Spa conference in early July 1920. On 10 July Grabski had an interview with Lloyd George, during which the British premier ordered the Poles to withdraw 125 miles behind the line which they occupied at that time. The line indicated by Lloyd George, running from Grodno through Białystok, Brest-Litovsk and Przemyśl to the Carpathians, was the same as that contained in the Allied proposal of 2/8 December with, as its most controversial part, an extension into Eastern Galicia.⁹⁷ In spite of Grabski's immediate disapproval, the line thus first espoused by Lloyd George was repeated on the following day in a telegram to the Soviet government bearing the signature of Curzon. Such has been the tortuous provenance of the 'Curzon Line.' The telegram also contained the intimation that the Poles enjoyed the protection of the British as long as they complied with the line.⁹⁸ While their trade delegation negotiated in London, the Bolsheviks crossed the line on 24 July. To defuse the crisis caused by the unexpected arrival of the Russians at the outskirts of Warsaw, yet another Inter-Allied delegation was sent to Poland, which included Lord D'Abernon, Jean-Jules Jusserand, and Generals P. de B. Radcliffe and Maxime Weygand.⁹⁹ The Poles sued for armistice, and the Russians offered a frontier far more favourable to the Poles than the Curzon Line on the condition that they curtailed their army and gendarmerie. The Poles were induced to compromise by the very real danger of German-Bolshevik co-operation at their expense.¹⁰⁰ Lloyd George advised compliance to the Poles, while Millerand instructed Weygand to assist in organising a Polish counter-attack.¹⁰¹ The success of the latter operation eventually led to the Treaty of Riga, negotiated on 12 October 1920, but formally only signed on 18 March 1921. With the treaty doubling the area given to the Poles by the Curzon Line, it was evident how little the line mattered in the establishment of Poland's interwar frontiers. Its day of fame only arrived at the end of the Second World War when it became an instrument of bargaining in the hands of the Soviet leadership, finally providing the basis for the present-day eastern border of Poland. The story offers a vivid illustration of how, in Harold Nicolson's words, Britain 'indulged in [...] threats and promises' at a time

when neither could be fulfilled or enforced.¹⁰² This lack of decisive and responsible policy and Lloyd George's lukewarm attitude to the Poles throughout the war years and at the conference table formed the roots of the limited influence that Britain could wield both politically and economically in regard to Poland during the post-war years.

5.3 POLAND, THE NORTHERN DEPARTMENT, AND BRITISH REPRESENTATIVES: FROM VERSAILLES TO 1924

5.3.1 Difficult Start

By assigning Poland to the Northern Department, the Foreign Office had tacitly continued to regard Polish issues as if they had been the continuation of matters concerning the Congress Poland under Russia, whereas the Poles, in spite of their large eastern territories, would have liked to shift the emphasis to their status as a new medium-sized Central European power.¹⁰³ The great majority of the Foreign Office documents relating to Anglo-Polish relations between 1920 and 1925 were concerned with territorial and legal problems that kept Poland in a state of more or less permanent stupor, nourishing British prejudices against the reborn country. In the face of these problems, diplomats rarely showed initiative, and this vital stretch of transit between the former German and Russian empires found its new ways of expression without regard to British interests in the region. One of the few British officials who had pursued the development of Poland's fate with sympathetic interest was John Duncan Gregory, who became Head of the Northern Department of the Foreign Office after the war.

British representation in the capital of the new Poland was established in September 1919 under Sir Horace Rumbold, who had been British Minister in Berne during the war and had had contacts, like Esmé Howard in Stockholm, with Polish émigré groups.¹⁰⁴ Rumbold, whose appointment in Poland lasted for one year, never managed to acclimatise himself to the peculiar conditions in which the factious and recalcitrant politicians and soldiers of the war-torn Central European country began to re-establish its independence. His dispatches regularly contained allu-

sions to his discomfort, disillusionment, even irritation, at the headstrong nationalism of most of the key players he had to deal with. Understanding the dynamic of the prime minister's hold on British foreign policy, Rumbold addressed many of his dispatches directly to Philip Kerr, Lloyd George's private secretary. At the end of 1919, he wrote to Kerr:

The position for us here is uncommonly difficult, for, of course, as you know, we are supposed consistently to block Polish aspirations [to press East]. The Poles in fact think that our attitude in regard to Dantzig and Eastern Galicia is a proof of our unfriendly feelings towards this country. I tell them that they must not connect our attitude in these questions with our general policy towards Poland.¹⁰⁵

Kerr's answer unequivocally asserted the view that the prime minister and his circle held consistently throughout the Polish crisis. He reassured Rumbold of his agreement with the argument that

[...] the best friend of Poland was the man set his face against the inclusion in Poland of non-Polish majorities. If the Poles, and their short-sighted friends, had had their way Poland would have had as its bitterest enemies all her neighbours, each of whom would be spending its time in trying to get back what it regarded its own by fomenting discord within Poland through members of its own race. Mr. Lloyd George has always said that the real thing for Poland was a settlement which both the German people and the Russian people would recognise to be just.¹⁰⁶

In Kerr's assessment, any other policy would 'create permanently a glorified Alsace Lorraine in Eastern Galicia', which was not 'going to be for the strength of Poland or the stability of Europe.'¹⁰⁷

Rumbold reported that towards the end of 1919 relations between Great Britain and Poland were rendered temporarily easier by hopes of a strong working alliance between Russian anti-Bolshevik forces and the Poles.¹⁰⁸ The almost immediate collapse of General Wrangel dashed these aspirations, and re-established the former state of uncertainty.

With the outbreak of hostilities between Poland and Bolshevik Russia in March 1920, the conservative-minded Rumbold found it difficult to balance his natural aversion to the Russian revolutionaries with his desire to see an ethnically homogeneous Poland. In a telegram, dated 26 March 1920, he reasserted his opposition to the reconstitution of Poland within its pre-partition frontiers in unreservedly stinging terms:

The idea that Poland, a country that had only just come into existence again, that could hardly govern itself within its ethnographic frontiers and that was going from bad to worse administratively and financially, should have the audacity to demand the actual annexation of non-Polish territory twice its own size appeared utterly preposterous Imperialism. It was simply asking for a Russian-German combination to destroy it and start a new great war over its dead body.¹⁰⁹

Yet Rumbold considered the Soviet system to be 'the most iniquitous political régime that has yet appeared in modern times' and that 'no peoples in their senses can possibly desire to be handed back' to them. Therefore, the British Minister offered an equally dark, and characteristically acerbic, assessment of Poland's eastern neighbours, and, by implication, any settlement which unilaterally favoured the Russians. He declared that due to the events of the previous six years, '[a]ll our old illusions have been gradually shattered. Czarists, Bolsheviks, anti-Bolsheviks alike have all proved to be infected with some ineradicable Oriental vice stamping them as a race alien to ourselves.' Rumbold's essentially Victorian outlook is also reflected through his argument that '[t]he early history of Poland itself, the *raison d'être* of Austria-Hungary, and, in fact, one of the main contributory factors in producing the great war are manifestations of the recurring tendency in European politics to create a barrier against Oriental Slavs.'¹¹⁰ In these dire circumstances, the British Minister recommended direct Allied involvement in administering the disputed territories between Poland and Russia until a general settlement, possibly underpinned by plebiscites, could be reached 'to save [...] both Governments [...] from themselves.' He advised British preponderance in such intervention to prevent Poland from falling entire-

ly into the French orbit. 'There has been for some time a disposition to regard Poland as in some sense a French preserve,' he observed. The unsigned comments appended at the Foreign Office to Sir Horace Rumbold's memorandum concur that, given the fact that 'we cannot allow Russia, even Soviet Russia, to be treated contemptuously,' the ideal solution would be 'for His Majesty's Government to set up a temporary administrator of their own, with a British Civil staff.' The author of the extensive minutes even conjectured that '[t]he nearest analogy would be the Soudan, and the British Administrator might profitably be an ex-Sirdar.' In his concluding remarks, the Foreign Office official spelt out the rationale behind any British involvement beyond the obvious goal of peace-making and peace-keeping:

At present the new States are largely blinded to their own interests by an exaggerated nationalism, and it is only sober outside interference that can steer them towards a position of at least moderate stability. If we leave them alone, they will destroy the political and economic gains that have already accrued to them from the upheaval of the last two years and will continue to deny to us indefinitely their resources which are as necessary to the restoration of industrial peace throughout Europe as they are to the new States themselves.¹¹¹

While the presence of British forces in the region as part of the western intervention in support of the anti-Bolsheviks made such plans theoretically feasible, the local dynamic of the Polish-Russian conflict practically precluded any serious contemplation of the radical proposal. Rumbold himself continued to be overwhelmed by events. In July 1920, he wrote to Lord Hardinge:

The Poles are entirely to blame for the mess in which they find themselves, and I have come to the conclusion that the chief offender is Pilsudski. You are right when you say that I do not have an easy time of it with these people. [...] I think I shall be quite ready to go altogether when I have completed my time here.¹¹²

Towards the end of July, with the Russian offensive in full swing, Rumbold became exasperated. He felt that while 'the question of Poland v. Soviet Russia must necessarily become merged in the larger question of Soviet Russia v. the civilised world,'¹¹³ he blamed the Poles and especially their leader, Piłsudski—whom he considered 'a somewhat sinister figure'¹¹⁴—for the deteriorating military situation. While Rumbold's opposition to the Poles' desire for historic borders coalesced with the wishes of the government in London, his growing distaste towards the idea of a deal with the Soviets at the expense of the Poles was no longer echoed back home, especially not among the Prime Minister's circle. His suggestion for an interim Allied administration in the disputed territories was drowned out amidst the intensifying conflict.

These pressures gradually took their toll on Rumbold's stamina until he probably felt his position to be near untenable. In mid-September, he declared that the Poles had 'gained the reputation of being the most quarrelsome people on the continent.'¹¹⁵ It was quite obvious that he could not see eye to eye with his hosts. In letters to Lord D'Abernon, and Sir George Clerk in August and September 1920, Rumbold, who had coveted the Berlin embassy, complained further of the excessive workload resulting from the Polish-Soviet war. The Foreign Office was prepared to consider Rumbold for the post in Berlin, but could not prevent Lloyd George's candidate, Lord D'Abernon, from getting that job. Disappointed, Rumbold applied for a transfer, and gratefully accepted Curzon's offer of the post of Ambassador and High Commissioner in Constantinople at the end of September 1920. The new British Minister in Warsaw, William Max Müller (from 1922, Sir William, also the last British Consul General to serve in Budapest before the war from July 1913 to August 1914), arrived in Poland in November 1920.¹¹⁶ Max Müller soon adopted the somewhat disdainful language that characterised British parlance in connection with Polish politics. In his first annual report, he observed that the Poles were 'encouraged, or believe[d] themselves to be encouraged, by the French to enlarge their boundaries, and thereby to strengthen the "eastern bulwark of civilisation"—a phrase which they were never tired of using.'¹¹⁷ Early in 1920, largely due to British initiative, the Supreme Council decided to take steps towards the resumption of trade with Russia. Shortly afterwards, Patek, the Polish Foreign

Minister, was told by Lloyd George in London, as referred to earlier, to accept any reasonable offer that the Soviets might make. In 1920, British policy towards the Poles might be described by the single aim of counselling restraint. As a result, Polish leaders considered the British attitude as the manifestation of 'an unflattering lack of confidence in Poland's future, and at other times an inexplicable desire to make friends with Poland's enemies,' which caused 'genuine astonishment'¹¹⁸ to the Poles. Neither were the British enthusiastic about Poland's new political institutions and its powerful leader, Piłsudski. Harry Crookshank of the Northern Department minuted on a dispatch by Sir Percy Loraine, First Secretary at Warsaw, that 'the Diet which is really a Constituent Assembly has tried to be a parliament & has lamentably failed. An outside observer would not be so impressed with Marshal Piłsudski's greatness as apparently is Prince Sapieha.'¹¹⁹

The dominant backdrop against which Anglo-Polish relations were conducted from 1919 to at least mid-1923 was that Poland, 'on all her frontiers [...] was confronted by hostile neighbours, Germany, Russia, Czechoslovakia and Lithuania [and the country was unable to] devote [itself] without hindrance to industry and commerce and to the settlement of their internal problems.'¹²⁰ As Max Müller explained, the reasons for the one-year delay with which he sent his first two annual reports on Poland was that he had replaced Rumbold late in 1920, and had found very unsettled conditions at the Legation in Warsaw.¹²¹ The impression of the outside observer in Poland was that the British were 'not only feared but cordially disliked.'¹²² The dislike was especially directed 'against Mr. Lloyd George, who was regarded as an ignorant and prejudiced enemy of everything Polish.'¹²³ The Poles blamed the British, and specifically Lloyd George, for having deprived them of Danzig, Marienwerder and Allenstein, for thwarting their plans in Eastern Galicia, and for advising them to accept Bolshevik terms in the east, as well as for protesting against their policy in Vilna.¹²⁴

Max Müller, like his colleagues in Prague and Budapest, but unlike his predecessor in Warsaw, tried, whenever possible, to stress the positive aspects of the policies pursued by his hosts. In one such attempt, he wrote that even during the critical days of the summer of 1920, 'the two foreigners whose advice carried the greatest weight in Poland were Sir H.

Rumbold and General Carton de Wiart,¹²⁵ and that the League partition of Upper Silesia was recognised as advantageous for Poland, 'the principal credit for [which] was ascribed by the Polish public to Mr. Balfour...'¹²⁶ Max Müller also pointed out the beneficial influence of the appointment in June 1921 of Konstanty Skirmunt as Polish Foreign Minister, who was less anti-British than his predecessors.¹²⁷

5.3.2 *Skirmunt and the Genoa Conference*

The idea of the Genoa Conference did not find favour among the victorious successor states of Central Europe. No gathering, especially with the participation of the discredited powers of pre-war times, which suggested the slightest hint of question marks over the status quo, was likely to enthuse them. At the same time, Lloyd George's design for the reconstruction of Russia, and his plan to have the Germans readmitted into the European family of nations was less disturbing for the Czechs than for the Poles. Skirmunt, who was pro-Russian (bringing on himself the scorn of Piłsudski, who was temporarily out of office), felt that he had to find his own answer to the challenge posed by Genoa. This he tried to do first by seeking closer ties with the Little Entente, which foundered on the opposition of London as well as Prague. Having failed to attach Poland to the Central European group, Skirmunt's attention turned north-east. Following discussions in Warsaw (where Finland was also present), a meeting was arranged in Riga from 29 to 31 March 1922 between Polish, Soviet, Latvian and Estonian delegates, which became a forum for disarmament and reconstruction. The final communiqué even called for the recognition of Soviet Russia.¹²⁸ While the British did not resent the outcome of the Baltic talks, they were not pleased to have been left out. French diplomacy was incensed by the elevation of the Soviets into the official European sphere, and Beneš was made jealous of Skirmunt's aspiration to be the new middleman in European power politics.

By raising his own and his country's profile, Skirmunt hoped that the West would be persuaded at Genoa to recognise Poland's borders embodied in the Treaty of Riga, its recent acquisition of Vilna which Poland formally annexed in March 1922, as well as the status quo in Eastern Galicia which had been occupied by Polish forces since June 1919.¹²⁹ The

French and the British had different reasons for declining recognition at this time. The British feared that it would jeopardise their fledgling relations with Soviet Russia, while the French, hoping for the eventual collapse of the Soviet régime, were reluctant to sanction the truncation of their traditional Russian ally. Both governments dreaded the creation of yet more destabilising irredenta in Europe. On 15 March 1922, Captain William Wedgwood Benn, a Radical 'Asquith' Liberal MP, asked whether Britain was 'committed to any guarantee securing the frontiers of Poland beyond the provisions of the Versailles Treaty.' Standing in for Lloyd George, the Conservative Sir Philip Lloyd-Greame, the President of the Board of Trade, replied: 'The answer is in the negative.' Referring to the preparations for Genoa, Captain Benn reformulated the question as to whether any 'such provision will be inserted in the Anglo-French Pact? May I have an answer?' Though the answer was not repeated, a copy of the exchange was approvingly initialled by Charles Harvey of the Northern Department and Curzon.¹³⁰

At Genoa, Skirmunt attempted the impossible: in addition to securing the recognition of all of Poland's borders, to increase collaboration with Britain while retaining good ties with France, détente with Russia and a measure of rapprochement with Germany. He also wished to obtain state loans from both the British and the French. As Max Müller put it, Poland's 'interests at Genoa, so far as Russia was concerned, lay in following British rather than French policy, but, owing to their country's political ties with France, the Polish delegation had to avoid a breach with France.'¹³¹ Skirmunt's mandate required him to decrease Poland's dependency on France and collaborate more with Britain,¹³² but this blunted his bargaining power at the conference. He acquitted himself well in this invidious situation, and even contributed to bridging over Anglo-French differences.¹³³ However, following the Rapallo agreement, while Skirmunt himself was not deterred by the Russo-German rapprochement, his hands became tied due to the shock experienced in Warsaw by the Piłsudski group, who could not be ignored in Polish politics whether they wielded formal power or not. Neither was there inclination on the part of the Germans and the Russians to sanction their borders in an official agreement. Consequently, Skirmunt's efforts at Genoa to achieve dramatic improvement in Poland's diplomatic position failed.¹³⁴

Following the conference, Skirmunt announced to the Polish diet that the British government had accepted the Polish position.¹³⁵ Reginald Hervey Hoare, First Secretary and chargé d'affaires at the British Legation in Warsaw, reported that Skirmunt surmised from an interview he had had with the British Prime Minister in Genoa on 5 May 1922, that 'Lloyd George recognised the borders as stated in the Treaty of Riga.'¹³⁶ The speculations in Warsaw were swiftly quelled by a letter from Sir Maurice Hankey. The British cabinet secretary emphasised that 'any undertaking the Prime Minister gave was limited to the period of the Genoa Conference,' and that the premier 'would take no decision without hearing his [Hankey's] view,' which was that a ruling by the International Court at The Hague had to be awaited.¹³⁷ Hoare at the British Legation differed sharply. 'To be quite honest,' he wrote, 'this seems to me a complete misunderstanding of the logical position, which is that, having signed the Treaty of Riga, the Soviet Government has nothing on earth to do with Eastern Galicia and Vilna.' The British diplomat, who, like many of his colleagues, found the interference of the cabinet secretariat in foreign policy matters irksome, declared that 'Hankey's attitude amounts almost to an invitation to the Bolsheviki to regard Riga as a purely temporary settlement.' Following considerable delay, P. V. Emrys-Evans, a temporary clerk at the Northern Department, tried to settle the conflict by minuting: 'I do not see that we can do very much. The Prime Minister said one thing and M. Skirmunt thought he said another.'¹³⁸

5.3.3 *The Recognition of Poland's Frontiers*

Towards the end of June 1922, Skirmunt, whose tenure in the Polish Foreign Ministry had survived a number of political storms at home, finally succumbed to 'unconstitutional interference by Marshal Piłsudski, whereupon Piłsudski got rid of him,'¹³⁹ and was replaced, on 4 August, by Gabriel Narutowicz as Foreign Minister. As a nominee of the Piast group, Narutowicz, was soon to become Poland's first democratically elected President. Seen as a stooge of 'Jews and aliens' by the National Democrats, a 'sinister campaign,' accompanied by agitation in favour of a *numerus clausus* law of the kind which had been introduced in Hungary in 1920 was started against him. He was finally assassinated by a right-wing

fanatic on 16 December 1922. Stanisław Wojciechowski, his successor, was elected by the same Piast supporters. On the day of Narutowicz's assassination, M. Rataj, Marshal of the Polish Diet, appointed General Sikorski, chief of the General Staff, Prime Minister, to replace Julian Nowak, who was less capable of dealing with a crisis.¹⁴⁰ Ronald Charles Lindsay, Assistant Under-Secretary of State at the Foreign Office, informed Curzon that Władysław Wróblewski, the outgoing Polish Minister in London had transmitted the inquiry from Warsaw whether if Konstanty Skirmunt, ex-Foreign Minister would be 'suitable for London.'¹⁴¹ His 'Yes' was granted on 24 August.¹⁴² Later Curzon was briefed that Skirmunt was 55 years old, still managed his estate with his brother, was a former Russian subject and a former Minister to Rome. He was also a '[s]peaker of Polish, Russian, French, German and Italian,' who could yet be re-appointed as Polish Foreign Minister, 'desire[d] to draw England and Poland closer together. Wants to interest British capital to move to Poland.'¹⁴³ With the resignation of the Lloyd George coalition at the end of October and Skirmunt's appointment as Polish Minister in London from 22 November, the chances of improvement in Anglo-Polish relations increased dramatically. In Warsaw, during their first meeting with the new Polish President, Stanisław Wojciechowski (occasioned by the recall from London of Wróblewski, conducted in the presence of the new Foreign Minister, Count Aleksander Skrzyński), Max Müller remarked that 'Great Britain was one of the creators of a resuscitated Poland and as such felt a certain paternal responsibility.' Instances of 'stern remonstrance and unpalatable advice in the past were due to this feeling of responsibility.'¹⁴⁴ In this new atmosphere, not even the British government's refusal to approve the draft statute for autonomy for Eastern Galicia within Poland caused a setback in relations. British benevolence meant that the Poles could proceed with the November elections in Eastern Galicia as well as Poland proper without protest from any Western power.

Realising that the sole practical alternative to the recognition of Polish sovereignty over Eastern Galicia would be the transfer of that territory to Soviet rule, on 15 March 1923, the British, along with other Allied governments, conferred formal recognition on the Polish frontiers as stipulated under the Treaty of Riga.¹⁴⁵ Similar treatment was accorded by the British and the French to the Polish-Lithuanian frontier. The recognition

was controversial, for the Allied governments effectively condoned a fait accompli achieved by military aggression. However, in Max Müller's words, '[a]nyone visiting Vilna can see for himself that it is a Polish city and that its inhabitants are more Polish than the Poles themselves.'¹⁴⁶ Although the direct connection was denied at the time, the powers placated Lithuania, to some degree, by ceding to it the Memel District, in which Poland had considerable commercial interests. Basil H. Fry, the British Consul in the Free City of Danzig, was a member of the special commission set up by the Conference of Ambassadors in 1923 to report on the situation in Memel, and took a leading role in drafting the proposal to award the territory to Lithuania.¹⁴⁷

Therefore, with the exception of a few miles in the South-Western corner of Poland, the powers eventually recognised a Polish frontier corresponding to the one that had existed before the third partition in 1795. Throughout 1923, the Polish Foreign Ministers, Count Skrzyński and his successors Marian Seyda and Dmowski, followed conciliatory policies towards Moscow, which was favourably received by the Foreign Office.

Relations also benefited from the brief premiership of General Władysław Sikorski. The British were quick to spot this outstanding soldier who went on to become Prime Minister in late 1922. Sikorski, in spite of heading a liberal-leaning non-party government, in office from 16 December 1922 to 26 May 1923, was opposed to Piłsudski, the strongest counterbalance to the National Democrats. Sikorski resisted the tendency of French political and military domination, and thus had the makings of an ideal pro-British politician. In August 1922, as Chief of the General Staff, he had accepted an invitation to visit London in October following his scheduled visit to Paris.¹⁴⁸ It was with a sense of satisfaction that Major-General C. J. Sackville-West, the British Military attaché in Paris, reported in September to Hardinge, Britain's Ambassador in Paris, that Sikorski 'is not pleased with France, who always try to sell Poland old war material, French or captured German, which is perfectly valueless.' Sikorski on whom 'General Carton de Wiart'¹⁴⁹ had reported fully' to the British, was also known to be among the first Polish politicians to plan to 'make overtures to Germany soon' while believing that 'nothing is possible vis-à-vis Russia.'¹⁵⁰

5.3.4 Continued Stand-off on the Borders

The optimistic spirit engendered by international recognition did not last beyond the change of government in Warsaw in 1923. Max Müller was strongly critical of Wincenty Witos's National Democrat government,¹⁵¹ which, upon taking over from Sikorski, disregarding Max Müller's advice, acted as 'chauvinists and extreme nationalists [...] and by the end of [1923] discontent had again become rife' in Eastern Galicia as well as the Vilna area. It was also suspected that nationalists (as well as Piłsudski) even entertained the idea of expanding further towards Sub-Carpathia with the ostensible purpose of uniting Galicia.¹⁵² Meanwhile, Lithuania refused to recognise the award of the Conference of Ambassadors which assigned Vilna to Poland, and persisted that a state of war existed so long as Poland remained in occupation of that town. The relations between the two countries were further embittered when Lithuania closed the Nemen, thereby preventing Poland access to the port of Memel. By doing this, they breached the Memel Convention, which stipulated the free navigation of the Nemen. In spite of ongoing efforts to break the deadlock,¹⁵³ both Poland and Lithuania failed, in letter as well as spirit, to fulfil the provisions of the decisions made at the Conference of Ambassadors on 15 March 1923.

In late October 1923, the British were informed from intercepts of telegrams sent by Jan Ciechanowski, counsellor at the Polish Legation in London, to Seyda, the Foreign Minister, that the enmity between Poland and Lithuania had escalated to such an extent that 'LITHUANIA enter[ed] into conversations with the Soviet as regards the possibility of her joining the League of Soviet Republics in return for Russian assistance in the ... of VILNA.'¹⁵⁴ The Foreign Office was told that 'the failure of ENGLAND to support [Lithuania] might have the effect of compelling her to conclude an agreement with RUSSIA...'¹⁵⁵ The talks in Riga made little progress due to the conditions set by the Lithuanian negotiators, and the inevitable necessity to involve the other Baltic states.¹⁵⁶ In February 1924, Seyda informed Skirmunt in London of the 'strong pressure [...] he [had recently] exercised on the Latvian [Minister] to prevent them from committing themselves under extreme

pressure to a separate Pact with the Soviet but also to [(prevent them from co-operating for this purpose ?)]... with LITHUANIA.¹⁵⁷

In the summer of 1924, R. C. Thomson, British expert on the peoples and languages of the former Russian Empire, visited the former Russian territories of Eastern Poland. His report from the Volhyna district did nothing to allay the renewed unease in Anglo-Polish relations. According to Thomson,

the native population [were] almost to a man Russian (—or rather Ukrainian—) speaking, the Polish local authorities [...] force the Polish language and sentiments upon them. [...] Tax collectors take advantage of the peasants' ignorance of Polish and carry off in lieu of taxes whatever they can find...¹⁵⁸

The status of Danzig, a Free City administered by the League of Nations, remained a thorn in the body politic of Poland throughout the interwar years. Reginald Leeper,¹⁵⁹ Russian expert in the Northern Department, who visited Poland in June 1923, reported a speech by Seyda, in which the Foreign Minister asserted that Polish rights on Danzig territory, as established by the Treaty of Versailles, the Paris Convention of 9 November 1920, and the convention of Warsaw of 24 October 1921, 'had never been realised.'¹⁶⁰ In Max Müller's view, a 'spirit of mutual distrust and suspicion' existed between Poland and the government of Danzig, which rendered the complicated scheme for joint government 'practically unworkable.' For this, he blamed the 'headstrong and tactless policy of the [National Democrat] Polish Commissioner-General' in Danzig.¹⁶¹ Only as late as 1925 could limited progress be achieved, when the British High Commissioner MacDonell's award confirmed long-contested postal rights for the Poles.¹⁶² One of the Poles' main claims was that the 'Free City' status of Danzig be changed to that of 'Free State.' MacDonell rejected to uphold this in a decision issued on 7 November 1924, whereupon the Council of the League overturned the high commissioner's ruling in early 1925. The matter did not rest, and the documents on Danzig continued to tell a story of discord between Poland, Germany and the Free City.¹⁶³

5.3.5 *Anglo-Polish Relations before the Geneva Protocol and Locarno*

The main sponsors of Polish security and the territorial settlement were the French and not the British. As Max Müller reported, '[t]he staunchest supporters of friendship with, and even subservience to, France [were] found [in Poland] in the ranks of the National Democrats, who are prepared to follow blindly the French lead.'¹⁶⁴

Unlike the position in Czechoslovakia and Hungary, where the British developed better relations with the conservative elements, in Poland they had unsatisfactory ties with liberals, socialists, as well as conservatives.¹⁶⁵ The relations were unsatisfactory for two reasons. One was the French domination of the relationship with both groups, the other Poland's vital position between Germany and the Soviet Union, with both of whom the British intended to improve relations. Both left and right in Poland proved uncompromising on territorial matters. The territorial ambitions of Poland caused more problems for the Northern Department than those of Hungary did to the Central Department. British interest in the improvement of Anglo-German and Anglo-Soviet relations deterred the Foreign Office from closer ties with either liberals or conservatives in Poland, whereas no British stakes of comparable magnitude were involved in connection with the foreign political objectives of Hungarian conservatism. In addition, because the internal affairs of Poland remained in a state of flux due to the frequently changing and weak governments, it was more difficult to develop working relationships in Warsaw than in Hungary or Czechoslovakia, where political orientations were stable and predictable.

In spite of the British contribution to the recognition of the Polish borders in 1923, and a visit to Warsaw in the wake of Marshal Foch's visit by Lord Cavan, the Chief of the General Imperial Staff, Britain could not rival the French political ambitions and achievements in Poland. Therefore, Max Müller realistically concluded in July 1924, that '[t]he political purpose may now be said to have been attained and henceforth British interest in Poland will be most exclusively economic.'¹⁶⁶ While this verdict could equally have been passed by Clerk in Prague or Hohler and Barclay in Budapest, only Max Müller expressed it in so many words.

5.4 POLAND AND THE LABOUR GOVERNMENT IN BRITAIN

In contrast to the delight expressed on the occasion in Czechoslovakia, in Warsaw the British general election of early December 1923 was followed with unease. 'The general wish was that the Conservative [P]arty should be returned to power,' for, as Max Müller argued, 'the average Pole [believed] that, as it was under a Conservative Government that the eastern frontiers had been recognised, it was clear that they were friendly to Poland, while their political opponents, such as Mr. Lloyd George, were hostile.'¹⁶⁷ The programme advocated by the Labour leaders while in opposition was discussed in Poland, and special attention was given to their desire to grant *de jure* recognition to the Soviet government, to call an international conference for the settlement of German reparations, and to work for the admission of Germany and Russia to the League of Nations.¹⁶⁸ Predictably, therefore, following the accession to office of the Labour government, Anglo-Polish relations began to deteriorate. The day after Britain granted diplomatic recognition to the Soviet Union, the pro-British Skirmunt tried to soften the impact. In his message to Warsaw, as the British decrypts showed, he emphasised that 'the appointment of a [British] Ambassador [to the Soviet Union] has been purposefully delayed and might be made contingent on the course of the forthcoming (negotiations).'¹⁶⁹ However, the Anglo-Soviet talks bore fruit, and the signature of the treaties between Great Britain and the Soviet Union on 8 August 1924 was regarded by the non-party government of Władysław Grabski 'as an additional proof of British ignorance of conditions in Russia.'¹⁷⁰ The proposal to admit Germany to the League, 'looked upon by the Poles of all shades of opinion with the deepest misgiving,' was resented even more. They accused the British of 'indecent haste,' which 'would increase German Arrogance.'¹⁷¹ The National Democrats demanded the discussion of the negative impact of British policy on Poland's foreign relations in the foreign affairs committee of the Polish diet. While this request was turned down due to Count Skrzyński's refusal to comply, the Poles remained particularly upset by a speech made in Burnley by the British Home Secretary, Arthur Henderson, in

which 'he was reported to have declared that the Treaty of Versailles had failed its purpose and that its immediate revision was essential to the re-establishment of normal conditions in Europe.' This was compounded by MacDonald's 'alleged qualification of Germany's responsibility for the war and criticism of the Council's decision in regard to Upper Silesia...'¹⁷² Prime Minister Grabski's refusal to take up important elements of the financial proposals contained in the report of the Hilton Young mission added to the series of mutual disappointments.¹⁷³

It is arguable, with hindsight, that the British Labour government's pragmatic position, had it continued in office, would have favoured the Poles. As Eric Phipps remarked, the 'British Labour Party in general and Mr. Ramsay MacDonald in particular was criticised [in France] for their opposition to the [western] pact,' to which the Poles were also opposed for as long as they could.¹⁷⁴ Yet the Polish hopes were raised by the advent of a Conservative government at the end of 1924 were to be disappointed within a very short time.

5.5 ANGLO-POLISH RELATIONS AND THE TREATY OF LOCARNO

A significant development in the course of the negotiations leading up to the Locarno agreements was the increased volume of correspondence that crossed the boundaries of the Central and Northern Departments of the Foreign Office due to the fact that Germany, Poland and Czechoslovakia were equally affected by the proposed settlement. To a limited extent, the common interests of the region as a whole emerged. Disagreements over narrower issues which had caused the early discord between Britain and Poland, were, in 1925, in Max Müller's words, 'supervened [by] developments in the wider arena of European politics.'

The British response to the German offer that led to the Treaty of Locarno provoked 'a violent press campaign against perfidious Albion' in Poland. The British Minister in Warsaw reported that Poles believed that the general attitude

in England was that sooner or later Germany would attack Poland in order to recover the Danzig Corridor and Upper Silesia and that Poland would not be strong enough to prevent this. Great Britain [...] would not lift a finger to help Poland, and would treat as a scrap of paper the engagements to which she had appended her signature.¹⁷⁵

Skrzyński who had taken over, in August 1924, as Polish Foreign Minister from Zamoyski in Grabski's non-party government, in office since December 1923, came under enormous pressure from the Polish public and press not to co-operate in the Locarno process once the Geneva Protocol, with which 'Polish public opinion [...] had shown itself much enamoured,' was abandoned by the British. As Max Müller explained, the Poles, 'not unnaturally,' saw in the German proposal for a western pact an attempt to create a 'loophole for reopening the discussion regarding the sovereignty of the Danzig Corridor and Upper Silesia.' Balancing the merits of the territorial disputes between the Germans and the Poles, the British Minister accepted the validity of the Polish position. Max Müller noted that '[t]he corridor had belonged to Poland for centuries before it was illegally seized by Prussia not 150 years ago, and at present its population is overwhelmingly Polish.' In addition, 'a condition of Poland's rebirth was a promise to her of free access to the sea, and this [could] only be secured by the possession of the corridor.' For the Germans, on the other hand, there was something 'provokingly and intolerably unreasonable in the narrow strip of land which divide[d] their country into two parts.' Having weighed both sides of the argument, Max Müller judged that 'it passe[d] the wit of man to devise any solution which both parties would accept.'¹⁷⁶

The Poles were acutely apprehensive about the danger that 'Germany and France might settle their differences and Poland would then be offered an inferior form of guarantee.' Therefore, they were determined to prevent the conclusion of a Rhineland pact, unless 'an Eastern Pact, couched in similar terms, was signed simultaneously.'¹⁷⁷ Their fears seemed justified by the publication in British newspapers of opinion suggesting that 'the return to Germany of the Danzig Corridor and Upper Silesia was merely a question of a few years, and, moreover, a question

in which Great Britain had but little interest.¹⁷⁸ Hindenburg's election as German President, a bitter tariff war and the planned expulsion of the German optants from Poland made the talks on the Western treaty look all the more ominous for the Poles. '[A]nti-English feeling' in Poland mounted following the publication of the German proposals in March 1925, reaching levels last seen in the Polish capital at the time of the Upper Silesian plebiscite.¹⁷⁹ Max Müller warned his superiors that the 'Polish view was that His Majesty's Government, with short-sighted egoism, were endeavouring to escape from any commitments in regard to the security of the eastern frontier, and [no-one in Poland] made the slightest attempt to understand the British point of view.' It was in this cold political climate in the East that the British Foreign Secretary, Austen Chamberlain, set out to attend a meeting of the Council of the League in March to explain the British rejection of the Geneva Protocol and their advocacy of a Western pact. Before his departure, the Foreign Office asked for the opinion of their Historical Adviser, James Headlam-Morley.

The Adviser, an expert on Central and Eastern Europe, had already produced an extensive paper on the Western pact on 12 February whose findings proved to be contentious and unacceptable for the Foreign Secretary.¹⁸⁰ In his latest 'Note on Proposed Revision of Eastern Frontiers of Germany,' Headlam-Morley declared that he was 'much disturbed by the recent discussions in the press with regard to the Eastern frontiers of Germany.' He cautioned that the 'idea was getting about that [...] this country desires a revision.'¹⁸¹ Headlam-Morley regretted that this was happening at a time when there were signs that the 'more extreme phase of Polish chauvinism with which the national democratic party are identified' was, partly due to British pressure, losing ground, and when the nationalist element in Germany may feel encouraged. He warned: '[I]f we are not careful, we may quickly find ourselves entangled in a very serious political crisis.' Significantly, he added that '[a]ll the work of appeasement in which we have been engaged for five years may be wasted.'¹⁸² Headlam-Morley attacked the argument of the revisionists, which was that territorial rectifications would 'satisfy the dissatisfaction of Germany.' In his view, this was a 'most dangerous' position, based on 'great ignorance,' and reminded his readers that the preliminary conditions of peace had not been violated at the Paris Conf-

erence, and this was due to 'the persistence and success of the British Delegation at Paris [in opposing] the proposals which were put forward by the Poles and supported by the French.'

The problem of the Polish frontier, according to Headlam-Morley, divided itself into three sections: the question of Posen; of Upper Silesia; and of Danzig and the West Prussian corridor. In connection with Posen, the Historical Adviser emphasised that reopening the question now would cause incomparably more problems than letting it rest. Headlam-Morley restated that the territory had 'no natural features or boundaries of any kind' and that 'the Polish and German population [there] are inextricably mixed up.' Therefore, 'every sector of the frontier was considered [in Paris] in the greatest detail,' then 'presented to the Germans for observations,' and the border was rectified wherever 'it could be contended with some plausibility that [it] was unfair to the Germans.' To reverse this decision, Headlam-Morley warned, 'would be as fatal as beginning a fresh enquiry into Alsace-Lorraine.'

In the case of Upper Silesia, the British expert agreed that 'the situation [was] unsatisfactory, and called the League of Nations' interpretation of the plebiscite in 1921, informed at the time by advice given by Balfour, 'very perverse.' Headlam-Morley divided the issue into 'two completely separate questions.' The German claim for the whole of Upper Silesia on the grounds that they received the overall majority of votes could not possibly be maintained. With regard to the industrial triangle, however, there was 'justification for enquiry.' The League of Nations provided for arrangements 'for a kind of economic co-dominion' in that region. In Headlam-Morley's opinion, if that had been working 'reasonably well [...] it would be better to leave the matter *for the present*...' ¹⁸³ However, 'if the system is, in fact breaking down, [...] then there is room for quiet and discreet enquiry.'

In connection with Danzig and the corridor, Headlam-Morley reflected that, as '[e]very other alternative was discussed *ad nauseam*, the present solution should stand, especially as, if Germany had the strip of land, in time of war Poland would be cut off from her possible allies.' ¹⁸⁴

In conclusion, the Historical Adviser suggested that general revision was out of the question, but the British 'ought to give a ready ear to complaints about [...] minor points' from both sides and think more serious-

ly about Upper Silesia. The whole problem could be solved if the League had shown more strength 'when brought before a political issue.' J. C. Sterndale Bennett of the Central Department provided elaborate comment. While remarking that '[a] general re-opening of the Polish-German frontier question is the last thing we want,' Sterndale Bennett also asserted that the British should 'avoid committing [themselves] to the doctrine that the frontiers now fixed are fixed for ever.' The Versailles Treaty was 'the best that could be obtained [...] but time and experience have naturally revealed certain rough edges which must eventually be smoothed away if the whole settlement [was] to be lasting.' In reference to the issue of the Danzig Corridor, Sterndale Bennett doubted that it would have a value, as suggested by Headlam-Morley, in time of war as a means of communication between Poland and the Allies. In the event of a Polish-German war, judged Sterndale Bennett, 'within two days of the declaration of war the Danzig Corridor would have ceased to exist.'¹⁸⁵

Perhaps as a result of the rejection of his earlier conclusions, where he had stated that League guarantee of the Eastern states should mean British guarantee, Headlam-Morley toned down the import of his message. Not even he, an adviser who believed that it was in Britain's interest to extend the Western security umbrella to Eastern Europe,¹⁸⁶ could reassure the Poles that the status quo was sacrosanct to the British. Neither could the British Foreign Secretary, who, one day after the completion of Headlam-Morley's latest study, sent a memorandum to D'Abernon in Berlin on the subject of possible boundary changes in the east of Germany. Chamberlain wrote that

if [Germany] comes into the League [a precondition for the Western pact to take effect] and plays her part there in a friendly and conciliatory spirit [...] within a reasonable number of years she will find herself in a position where her economic and commercial support is so necessary and her political friendship so desirable to Poland that [...] she will be able to make a friendly arrangement on her own account directly with the Poles.¹⁸⁷

Stanley Baldwin, the Prime Minister, also favoured a 'quadrilateral pact' in the West which included Germany, though this was rather less signi-

ficant than would have been during the premierships of Lloyd George or MacDonald, as British foreign policy under Chamberlain reverted to type, i.e. he 'felt that he could [not] function unless the ministers left him to run foreign policy as he saw fit.'¹⁸⁸ On 20 March, the British cabinet, with the attendance of Chamberlain, took a decision acknowledging that the German offer represented the best basis for European security as opposed to such alternatives as the Geneva Protocol or total British isolation.¹⁸⁹ With this resolution behind him, Chamberlain attended the session of the Council of the League, and spoke, on his return, in the House of Commons on 24 March 1925. Using the same argument that Beneš used to persuade his Polish colleagues to accept the western pact, Chamberlain declared to the House that

It must be made quite clear that, in trying to underpin the Covenant and to stabilise peace in the west, we were not licensing or legitimising war elsewhere. [...] On the contrary, [...] by the mere fact [...] you would give an additional guarantee to the frontiers of the east.

Referring specifically to the German-Polish problem, Chamberlain argued that

No country has a greater, profounder, interest in stabilising peace, or promoting good relations with her neighbour, than Poland; and no one, no impartial person who can judge Germany's interest with a clear mind, unclouded by prejudice and passion, can fail to see that Germany can gain no real advantages and no additional security by attacking her eastern neighbour.¹⁹⁰

Chamberlain himself had his misgivings about the proposals, as, according to the planned treaty, Britain might have to declare war on France if the latter began to transfer troops through the demilitarised Rhineland to Poland or Czechoslovakia in case of a German assault on either of these countries. In addition, no-one, not even Max Müller in Warsaw, believed that the arrangement thus achieved would bind the Germans in

eternity.¹⁹¹ Nonetheless, Chamberlain proceeded to persuade his French colleagues of the merits of his treaty proposal, who would, in turn, carry the Poles and the Czechs into an agreement.¹⁹²

It can be seen, therefore, that while neither Chamberlain nor his advisers encouraged Germany's revisionist attitude in the East, the British were not willing to pledge themselves to stand up to Germany were it bent on pursuing such aims in the future. The British could not accept any responsibility in the East beyond that already assumed through the signature of the Covenant of the League. On 28 July, for instance, while discussing the negotiations, Chamberlain told Skirmunt, the Polish Minister in London, that Great Britain 'did not propose to be a party' to any new arrangements concerning the eastern frontiers of Germany.¹⁹³

Skrzyński was put under strong pressure by Briand as well as Chamberlain until he 'came to recognise that it was useless to expect His Majesty's Government to assume fresh responsibilities in a region of Europe in which their interests were not directly at stake.' Further, Skrzyński seemed to have been persuaded of the 'immensity of the benefit to Europe of a renewed *entente* between France and Great Britain.' Chamberlain also tried to impress on the Polish Foreign Minister, as in the course of a conversation on 12 September, that 'he had done his best to dissuade Germany from making any attempt to call in question the validity of her eastern frontiers.' In Max Müller's opinion, the intensive intercourse between Skrzyński and Chamberlain resulted in a relationship 'of the two countries, which had been more harmonious than at any time since the rebirth of Poland.'¹⁹⁴ Briand and Beneš¹⁹⁵ also worked on the Poles. Briand told Alfred Chlapowski, the Polish Minister in Paris, that in spite of France's overwhelming wish to obtain security for Poland's western frontier, 'she had to reckon with Britain.' Neither would France be able to register with the League the protocol signed by Herriot in November 1924 or the Franco-Polish Military Convention of 1921, as the first had not been ratified by the parliaments of both countries and the second was not compatible with the French constitution.¹⁹⁶

Skrzyński therefore, became isolated.¹⁹⁷ He instructed Skirmunt in London to tell Chamberlain that Poland had abandoned its ambition of seeking an explicit German acceptance of the Polish-German frontiers,

and was content to rely on its French security alliance.¹⁹⁸ The best light in which the Poles could portray the forthcoming agreement was demonstrated by the editor of the *Kurjer Polski*, Ignacy Rosner, who wrote:

Undoubtedly England fears to undertake any responsibility for the East of Europe, but this only means that England, who, as we have seen, realised too late that her own safety must be defended on the Rhine,¹⁹⁹ has not yet learnt that it must also be defended on the Banks of the Vistula.²⁰⁰

Thereafter, during his meetings with the British Foreign Secretary, Skrzyński's efforts were limited to arguing

that the conversations between Germany and her eastern neighbours should begin in the same place and in the same week as those between Germany and the western powers [...and] that the western pact should not come into force until the two arbitration treaties were signed and ratified.²⁰¹

Chamberlain was ready to promise such an arrangement.

The treaties referring to Germany's eastern borders, as initialled on 16 October 1925 (the date was made to coincide with Chamberlain's sixty-second birthday)²⁰² excluded territorial questions and were concerned instead with conciliation procedures. Both the Polish and Czechoslovak treaties stipulated a permanent conciliation commission, and only when the parties failed to reach agreement were they to seek arbitration. For a time, 'Skrzyński [had] intended to take the French Government's draft [prepared for their own use] as a basis for the Polish-German arbitration treaty,' but the Germans would not accept this.²⁰³ It was Beneš who, in order to keep the Germans on board, suggested conciliation to Briand as a substitute to a French guarantee of the Eastern arbitration treaties, and Skrzyński had no choice but to accept.²⁰⁴

Following the preliminary signature of the treaties, Chamberlain spoke of a *détente* on Germany's eastern frontiers,²⁰⁵ and that, by signing the accords, Britain undertook a moral guarantee of these frontiers. From the French point of view, Locarno was an improvement on their alliances

with Poland and Czechoslovakia, and improved French security lessened the chances of war in Europe. Skrzyński tried to convince his compatriots that, in this sense, progress had been made. In Max Müller's judgment, 'Poland ha[d] every reason to be satisfied with the final result,' and that Locarno 'brought about a marked improvement in the feeling between Great Britain and Poland.' In the British Minister's words, '[t]he improvement [...] attained its climax at the time of Count Skrzyński's visit to London for the signature of the Treaty of Locarno on the 1st December.'²⁰⁶ What is more, Max Müller opined that 'Poland was settling down and abandoning her dreams of expansion.'²⁰⁷ Stresemann's rather more cynical verdict, that the 'Moor had done his duty,' and that Locarno meant that France had little use of Poland thereafter,²⁰⁸ as in the case of the German Foreign Minister's assessment of Beneš's role at the conference,²⁰⁹ was closer to the essence of what had really had happened. This is borne out by the record of a conversation between D'Abernon and Stresemann, which took place in Berlin a few days before the signature of the Locarno Treaty in London. Chamberlain, as had been promised to the Poles, had urged the Germans to improve their commercial and political relations with Poland 'as a natural complement of Locarno' and as 'reciprocal action' now that the Poles, as a goodwill gesture, had withdrawn their expulsion orders to the German optants. To Stresemann's answer, that '[t]he trouble [...] was that the present boundaries of Poland gave rise to almost insuperable difficulty,' D'Abernon replied that to await border rectification before improved relations was a 'topsy-turvy' method. When Stresemann reiterated that 'it would be impossible to gain public support in Germany for any policy which did not promise an immediate improvement of the present frontier,' D'Abernon went out of his way to elicit a reluctant promise 'to approach the problem indirectly' in the light of recent improvements in relations between the two countries.²¹⁰

In Warsaw, Skrzyński took over the premiership of a country exhausted by the failed efforts of his predecessor, Grabski, who had staked and lost his political credit on financial reform. The experience of Locarno added to the disillusionment with parliamentary government in Poland, which came to a halt in May 1926 with Marshal Piłsudski's coup d'état, marking a turning point in the interwar history of the country.

5.6 IMPEDIMENTS TO COMMERCIAL PROGRESS

Because of the political instability, industrial weakness, lack of uniform standards, inexperienced public officials and depreciated currency in Poland, trade between Britain and Poland faced formidable barriers.

The endeavour to establish an export trade from Britain to Poland, the chances of which were viewed optimistically in 1919 and 1920, suffered a setback in 1921 owing to the depreciation of the Polish currency, which put many articles of British merchandise out of reach for Polish purchasers. While the depreciation of the Polish currency had a favourable effect on exports from Poland, the Poles erected obstacles in the way of foreign business activity which was resented by the British as there were no similar measures applied to Poles in Britain.²¹¹

Considerable attention was devoted during 1921 to the question of the pre-war debts owed to British firms by the Łódź cotton and woollen industries. The settlement of debts was clearly of the greatest importance to both countries, as, until sorted, it was impossible for British firms to extend their business in Poland owing to the difficulty of granting fresh credits or continuing business relations on a cash basis. The position was complicated by the fact that the raw materials and semi-finished articles for which the money was due had been confiscated by the German authorities of occupation, and the firms maintained that they could not meet their liabilities until they had recovered the capital represented by the goods. Payment was rendered still more difficult by the continued depreciation of the Polish currency. The question of the legal responsibility of the Polish government for these debts, intermingled as it was with the general question of what reparations Poland was entitled to receive from Germany, also impeded speedy settlement of the matter, which was only disposed of in 1922.²¹²

At the end of 1920, the Poles inquired whether the British were ready to assist in reorganising the Polish railway system. Discussions were opened between the Foreign Office and Messrs. Cammell Laird, and it was proposed that an expert British railway adviser and staff should be appointed by the British government, and that the Polish government should grant a contract for reconditioning rolling-stock to a British group, provided that they were willing to undertake responsibility for

the repayment of advances made. The unsolved question of credits led to the breakdown of the proposal.²¹³ As a result, the British railway mission as well as naval missions were withdrawn from Poland despite the strongly expressed disapproval of the Polish government.

In spite of the improved position of the Polish mark, due to the fiscal reforms introduced by Jerzy Michalski, Polish Finance Minister from late 1921,²¹⁴ there continued to be 'practically no new British investments in Poland' in the early 20s, owing to the 'lack of confidence in Poland on the London money market.'²¹⁵ It was hoped that the petroleum industry in Eastern Galicia could play an important role in Anglo-Polish trade. However, already during the war, the French had already conceived a plan to secure for themselves, against British and American competition, access to sources of crude oil in Eastern Galicia,²¹⁶ and a large proportion of British petroleum interests were acquired by French financial groups.

A most-favoured-nation trade agreement did not come into force between the two countries until 1 July 1924, due, in Max Müller's words, to 'the inexplicable neglect'²¹⁷ of the Poles. In 1923, trade between Great Britain and Poland only represented 4 per cent of Poland's total trade, while, depending on different estimates, it was in the region of 40–60 per cent in relation to Germany, the only European country with which Poland had not concluded a commercial treaty by 1925.²¹⁸

The few British firms established in Poland were mostly timber merchants. A number of British engineering firms which had been established in Russian Poland before the war resumed their business. Four British shipping companies: Canadian Railway, Royal Mail Steam Packet, White Star and Cunard Lines, also opened offices in Poland. Their business, however, was handicapped by restricted immigration to the United States and Canada. Another important exception was the appearance, in 1922, of the Marconi Wireless Company, which entered into close business relations with the Polish Radio Telegraphic Company as well as opening negotiations with the Polish government. The deal with the PRTC was made possible by a financial subsidy granted to them by the government, which allowed the Polish company to benefit from the pioneering inventions of Marconi.²¹⁹ The co-operation was expanded in 1923, under the influence of the Anglo-Polish commercial treaty, when

the American Radio Corporation, and the French Société Générale de Télégraphe Sans Fil joined the British venture. Finally, in 1923, the British Power and Traction Finance Company invested £1,000,000 in Polish electric plants using the provisions of the British Trade Facilities Act.²²⁰

NOTES

- 1 Piotr S. Wandycz, 'The Polish Question' in Manfred F. Boemeke, Gerald D. Feldman, and Elisabeth Glaser, eds. *The Treaty of Versailles, Reassessment after 75 Years* (Washington D.C.: German Historical Institute, Cambridge: Cambridge University Press, 1998), pp. 313–14.
- 2 Kay Lundgreen-Nielsen, *The Polish Problem at the Paris Peace Conference, A Study of the Policies of the Great Powers and the Poles, 1918–1919* (Translated by Alison Porch-Jochansen), (Odense: Odense University Press, 1979), p. 9.
- 3 Wandycz, *The Polish Question*, p. 316.
- 4 B. J. C. McKercher, *Esmé Howard, A Diplomatic History* (Cambridge: Cambridge University Press, 1989), p. 212.
- 5 Georges Clemenceau, *Grandeur and Misery of Victory* (New York: Harcourt, Brace and Company, 1930), pp. 190–92, quoted in Wandycz, *The Polish Question*, p. 317.
- 6 Paul Chester Latawski, *Great Britain and the Rebirth of Poland, 1914–1918: Official and Unofficial Influences on British Policy*, Indiana University Ph.D. dissertation, University Microfilms International, 1985, p. 72.
- 7 Head of the War Department of the Foreign Office, future British Minister in Prague.
- 8 Former representative at the Holy See and future head of the Northern Department.
- 9 Private Secretary to the Prime Minister, Herbert Asquith, and to foreign secretaries Grey and Balfour. First Secretary General of the League of Nations.
- 10 Clerk's interview with Dr. Józef Retinger, 31 August 1914, FO 371/2095/46074.
- 11 Memorandum by Sir Ralph Paget and Sir William Tyrrell, 7 August 1916, FO 371/2804/180510/W39. Selections from the document are printed in Łojkó, *British Policy on Hungary 1918–1919*, doc. 2, p. 4.
- 12 Titus Komarnicki, *The Rebirth of the Polish Republic* (London: William Heinemann Ltd, 1957), p. 61.
- 13 Hugh and Christopher Seton-Watson, *The Making Of A New Europe*, p. 188.
- 14 Stephen Pichon, the French Foreign Minister announced to the French Assembly that France desired a Polish state 'une, indépendante, indivisible, avec toutes les garanties de son libre développement politique, économique, militaire, et toutes les conséquences qui pourront en résulter.' Joseph Blociszewski, *La restauration de la Pologne et la diplomatie européenne*, Paris 1927, p. 110, cited in Wandycz, 'The Po-

- lish Question', p. 320. Also see David Stevenson, *French War Aims Against Germany, 1914–1919* (Oxford: Clarendon Press, 1982), pp. 107, 112.
- 15 David Lloyd George, *War Memoirs* 2 vols, (London: Odhams Press Limited, 1938), p. 1514.
- 16 My italics.
- 17 Lundgreen-Nielsen, *The Polish Problem...*, p. 92.
- 18 Wandycz, *The Polish Question*, p. 321.
- 19 Howard to Earl Grey, 1 June 1916, Cumbria County Record Office, Carlisle, DHW 4/Official/8, quoted in McKercher, *Esmé Howard*, pp. 205–6.
- 20 McKercher, *Esmé Howard*, p. 206.
- 21 McKercher, *Esmé Howard*, p. 231.
- 22 Lundgreen-Nielsen, *The Polish Problem...*, p. 58.
- 23 Lundgreen-Nielsen, *The Polish Problem...*, p. 59. On one occasion, Howard was summoned to a meeting of Lloyd George and President Wilson to advise them on Estonia. He duly appeared, but was kept waiting outside, and was never called in. (McKercher, *Esmé Howard*, p. 218.)
- 24 Paul Chester Latawski, 'The Dmowski-Namier Feud, 1915–1918.' *Polin*, 1987 2, p. 38; Ephraim Maisel, *The Foreign Office and Foreign Policy, 1919–1926* (Sussex Academic Press, Brighton, 1994), p. 13; Julia Namier, *Lewis Namier, A Biography* (Oxford University Press, 1971), pp. xv, 3–4, 121–23.) Namier stayed in the P.I.D. until his resignation with effect from 1 May 1920, when he became a tutor at Balliol College, Oxford. (Julia Namier, *Lewis Namier*, pp. 128, 149–53.)
- 25 Drummond to Kerr, 18 January 1919, FO 800/215.
- 26 Arnold J. Toynbee, *Acquaintances* (London: Oxford University Press, 1967), p. 68.
- 27 See part II, Chapter 3, section 3.1.
- 28 Headlam-Morley to Namier, 3 February 1919, Sir James Headlam-Morley, *A Memoir of the Peace Conference, 1919* (London: Methuen, 1972), pp. 20–21.
- 29 Latawski, *Great Britain and the Rebirth of Poland...*, p. 272.
- 30 Lewis B. Namier, 'Remarks on "The Problems of Central and Eastern Europe"' 14 September 1917, FO 371/3016/194676, quoted in Paul Latawski, 'Lewis Namier and the Criteria of State-Building: The Construction of Czechoslovakia and Poland, 1915–1920' in Schmidt-Hartmann and Winters, *Großbritannien, die USA und die böhmischen Länder, 1848–1938*, 1991, p. 145.
- 31 For details, see part II, Chapter 3, section 3.11.
- 32 Namier, 'Remarks on...', quoted in Latawski, 'Lewis Namier and the Criteria of State-Building...', in Schmidt-Hartmann and Winters, *Großbritannien, die USA und die böhmischen Länder, 1848–1938*, 1991, p. 145.
- 33 Latawski, 'The Dmowski-Namier Feud: A Reply to Giertych' *Polin*, 1990, vol. 5, pp. 311–17.
- 34 The boycott was organised because Jews had voted for the Russian parties in the elections to the Russian Duma. ['Exchange, Letter from Jędrzej Giertych to the Editor of *Polin*, Oxford (Extracts)'], *Polin*, (Oxford, 1990) vol. 5, p. 305.)

- 35 Eduard Beneš, *My War Memoirs* (London, 1928), p. 313.
- 36 Roman Dmowski, *Polityka Polska i odbudowanie państwa*, Częstochowa, 1937, pp. 279–81, quoted in Latawski, 'The Dmowski-Namier Feud, 1915–1918', *Polin*, 1987 vol. 2, p. 37.
- 37 Julia Namier, *Lewis Namier*, p. 142.
- 38 Lundgreen-Nielsen, *The Polish Problem...*, p. 175.
- 39 Paul Latawski, 'The Dmowski-Namier Feud, A Reply to Giertych' *Polin*, (Oxford, 1990) vol. 5, pp. 212–13.
- 40 See section (III) 5.2.4 below. Before submitting recommendations on concrete issues, Namier carefully cultivated the self-esteem of politicians he was aiming to win for his views. On 19 April 1919, for instance, shortly before sending a memorandum containing his objections to Polish territorial ambitions in the east to Lt-Col F. H. Kisch, who, as a member of the Military Section of the British Delegation, was British representative on the Inter-Allied Committee on Polish Affairs, Namier wrote to Kerr, the private secretary of the Prime Minister, quoting a Polish right-wing daily which cast aspersions on leading British politicians. According to Namier, '[t]he Dmowski press has started a regular campaign against L-G, and even described the British as 'the Prussians on the Thames.' Referring to Kerr, the P.I.D. expert mentioned that "'the Kurjer Warszawski" has dragged you in personally.' (Latawski, *Great Britain and the Rebirth of Poland...*, p. 276.)
- 41 Haslam, *The Vices of Integrity*, p. 27.
- 42 Haslam, *The Vices of Integrity*, pp. 17, 23 and 24.
- 43 Lord Howard of Penrith, *Theatre of Life: Life Seen from the Stalls, 1905–1936* (London: Hodder and Stoughton Limited, 1936), p. 291, quoted in Haslam, *The Vices of Integrity*, p. 24.
- 44 Minute, dated 10 February 1919, on KNP to Balfour, 7 February, FO 608/61, in Haslam, *The Vices of Integrity*, p. 28.
- 45 Mark Levene, *War, Jews, and the New Europe, The Diplomacy of Lucien Wolf 1914–1919* (Oxford University Press, Oxford, 1992), pp. 237, 245, 285–86, 295–96.
- 46 Eugene C. Black, 'Squaring a Minorities Triangle: Lucien Wolf, Jewish Nationalists and Polish Nationalists', in Paul Chester Latawski, ed., *The Reconstruction of Poland, 1914–1923*, (London: Macmillan, 1992), p. 25.
- 47 FO 608/61, quoted in Haslam, *The Vices of Integrity*, p. 28.
- 48 Haslam, *The Vices of Integrity*, p. 27.
- 49 Carr to Isaac Deutscher, 27 November 1954, Deutscher Archive, Amsterdam, Institute of Social History, File 15, quoted in Haslam, *The Vices of Integrity*, p. 29.
- 50 For a brief period, during the spring of 1919, the Foreign Office, including Carr, was of the opinion, that Danzig should not have any special status; it would become gradually polonised as part of the Polish state. (Wandycz, 'The Polish Question', p. 325; Haslam, *The Vices of Integrity*, p. 28.)
- 51 Lundgreen-Nielsen, *The Polish Problem...*, p. 62.

- 52 Even more than Philip Kerr, Maurice Hankey, H. A. L. Fisher (who found the Polish terms 'most objectionable'), and Winston Churchill, Lloyd George 'remained impressed [...] with the German case on Silesia and felt there must be a plebiscite.' Michael Graham Fry, 'British Revisionism', in Manfred F. Boemeke, Gerald D. Feldman, and Elisabeth Glaser, eds. *The Treaty of Versailles, A Reassessment after 75 Years* (German Historical Institute, Washington D.C. and Cambridge University Press, 1998), pp. 572 and 577.
- 53 McKercher, *Esmé Howard*, p. 212.
- 54 Kimens and Kenney to Balfour, 9 January 1919, FO 608/11/46/1/1/142.
- 55 Namier's minute on copy sent to London, 15 January 1919, FO 371/3529/-4915/W3.
- 56 Both Paton and Lord contributed to the Polish sections of Harold Temperley's authoritative history of the Peace Conference, published between 1920 and 1924.
- 57 McKercher, *Esmé Howard*, pp. 221–23.
- 58 *Ibid*, p. 223.
- 59 See page 254. above.
- 60 McKercher, *Esmé Howard*, p. 225.
- 61 DHW 1/51, quoted in McKercher, *Esmé Howard*, p. 412, note no. 98.
- 62 Namier to Tilley, 15 April 1919, FO 371/3898; Namier's minute, 13 May, FO 371/3903; Howard to Balfour, 2 April 1919, FO 608/66/327–31, as cited in footnotes 217 and 222 in Lundgreen-Nielsen, *The Polish Problem...*, p. 542.
- 63 Fry, 'British Revisionism', p. 575, quoting Paul Mantoux, *The Deliberations of the Council of Four (March 24–June 28, 1919): Notes of the Official Interpreter*, Arthur S. Link, ed, Princeton, 1992, vol. 2, pp. 251–58.
- 64 *FRUS, PPC*, vol VI, p. 140.
- 65 Howard's diary, 22 April 1919, DHW 1/5, in McKercher, *Esmé Howard*, p. 230. Before leaving for his new post in Madrid in July 1919, Howard was appointed head of the Baltic Commission on 15 May, but could achieve little in that capacity.
- 66 Wandycz, *France and Her Eastern Allies*, p. 39.
- 67 Lundgreen-Nielsen, *The Polish Problem...*, p. 287.
- 68 Gisela Bertram-Libal, 'Die britische Politik in der Oberschlesienfrage, 1919–1922', *Vierteljahrshefte für Zeitgeschichte* 20 (1972), pp. 105–12; Patricia A. Gajda, *A Postscript to Victory: British Policy and the German-Polish Borderlands, 1919–1925* (University Press of America, New York, 1982), pp. 13–43, in T. Hunt Tooley, *National Identity and Weimar Germany, Upper Silesia and the Eastern Border, 1918–1922* (University of Nebraska Press, Lincoln and London, 1997), pp. 49–50. In 1921, a Franco-Polish company was set up to lease Prussian owned mines, and an agreement was reached to set up a Franco-Polish bank for Upper Silesia, but neither the French government nor French private institutions were able to muster enough stamina for the ambitious project. (Orde, *British Policy...*, p. 121.)

- 69 The commission consisted of Jules Cambon, James Headlam-Morley, Professor Lord, and was headed by General Henri Le Rond.
- 70 From within that sub-region, the *Kreise* of Grottkau, Falkenberg and Neisse, and a part of the *Kreis* Neustadt, all west of the River Oder, remained German without a plebiscite, and the central Silesian *Kreis* Namslau was included in the plebiscite area. Also excluded were *Kreis* Ratibor and the *Hultschinen Ländchen*, as these were to be ceded to Czechoslovakia. (Tooley, *National Identity...*, p. 51.)
- 71 Arthur R. Hinks, 'The Plebiscite Area of Upper Silesia.' *The New Europe*, vol. XIV, no. 174, (12 February 1920): , p. 105–6.
- 72 Max Müller to Curzon, 23 December 1922, FO 371/9312/N30/30/55. Also see Norman Davies, 'Lloyd George and Poland, 1919–20', *Journal of Contemporary History* 6, 3, (1971): pp. 132–54, *passim*.
- 73 Tooley, *National Identity...*, p. 240.
- 74 Tooley, *National Identity...*, pp. 240–41.
- 75 From PILTZ, Warsaw to Polish Legation, London, 2 June 1921, [Date of circulation to Prime Minister, Lord Privy Seal, S. of S. for Colonies, I[ndia].O[ffice]., D[irector of].N[aval].I[ntelligence]. D[irector of].M[ilitary].I[ntelligence]., Sir B. Thomson: 10/5/21], HW 12/22/no. 006401.
- 76 no. 193, 3 July 1921, HW 12/24/no. 007279.
- 77 Wróblewski to Polish Foreign Ministry, Warsaw, no. 84, 9 June 1921, HW 12/23, no. 006945.
- 78 Anna M. Cienciala and Titus Komarnicki, *From Versailles to Locarno, Keys to Polish Foreign Policy, 1919–25* (University of Kansas, Lawrence, 1984), p. 78.
- 79 Lord Riddell, *Lord Riddell's Intimate Diary of the Peace Conference and After, 1918–1923* (London: Victor Gollancz Ltd, 1933), p. 312, quoted in Blanche E. C. Dugdale, *Arthur James Balfour, First Earl of Balfour, K.G., O.M., F.R.S., 1906–1930* (London: Hutchinson & Co., 1936), p. 310.
- 80 The members were Belgium, Brazil, China, France, Great Britain, Italy, Japan, and Spain.
- 81 *The Parliamentary Debates: Official Report (Hansard), Fifth Series, House of Commons*, vol. 146, col. 1228.
- 82 Dombbski, Warsaw to Polish Legation, London, no. 153, 29 June 1921, HW 12/23, no. 006775; no. 192, 2 July 1921, HW 12/24, no. 007278.
- 83 The representatives were Paul Hymans (Belgium), Wellington Koo (China), J. M. Quiñones de León (Spain), and Gastão da Cunha (Brazil).
- 84 Dugdale, *Arthur James Balfour*, p. 311.
- 85 Tooley, *National Identity...*, p. 257.
- 86 Plebiscites were also held in East Prussia on 11 July 1920, where Allenstein and Marienwerder voted by overwhelming majorities (97.9 per cent and 92.4 per cent respectively, at the turnout rate of 87.6 per cent) to belong to Germany. (Arthur R. Hinks, 'The Plebiscite in East Prussia and in Slesvig', *The New Europe* vol. XIV, no. 179, (18 March 1920):, pp. 222–27; Lajos Pándi, ed, *Köztes-Európa 1763–1993*

- (*Térképgyűjtemény*), [Mid-Europe 1763–1993 (A Collection of Maps)], (Osiris Kiadó, Budapest, 1997), pp. 284–85.)
- 87 *FRUS, PPC*, vol. VI, pp. 272–73.
- 88 Wandycz, *The Polish Question*, p. 332.
- 89 Latawski, *Great Britain and the Rebirth of Poland...*, p. 272. Arnold Toynbee confirms that Namier and Hamish Paton were instrumental in researching the outlines of territory later marked off by the Curzon Line, which, according to Toynbee, could equally be called the 'Paton Line.' (Toynbee, *Acquaintances*, p. 67.)
- 90 Norman Davies, *God's Playground, A History of Poland*, vol. 2, *From 1795 to the Present*, (Oxford, 1981), p. 504.
- 91 Wandycz, *The Polish Question*, p. 331–32.
- 92 Harold Nicolson, *Curzon: The Last Phase 1919–1925, A Study in Post-War Diplomacy* (Houghton and Mifflin Company, Boston and New York, 1934), p. 203; Pándi, *Köztes-Európa*, pp. 310–13.
- 93 Max Müller to Curzon, 18 March 1922, FO 371/8143/N2900/2900/55.
- 94 The French Socialists, in spite of the pro-Polish French traditions, were critical of the abortive Polish expedition to Odessa and Kiev.
- 95 'The Significance of Leonid Krassin', editorial article, *The New Europe* vol. XV, no. 190, 3 June 1920, pp. 169–70.
- 96 Max Müller to Curzon, 18 March 1922, FO 371/8143/N2900/2900/55.
- 97 British Secretary's Notes of a Conversation held at the Villa Fraineuse, Spa, on 10 July 1920, *DBFP*, I/VIII, doc. 59, pp. 524–30. Also see Nicolson, *Curzon...*, pp. 203–204; Wandycz, *The Polish Question*, pp. 331–32.
- 98 The French did not join the communication, since, in their view, it would have implied official recognition of the Soviet government. Lenin and Georgi Chicherin rejected the line, arguing that it had been drawn under the influence of White reactionaries (reference to the *Conférence Politique Russe* [see page 259–60]), and that they preferred to negotiate with the Poles themselves. (Nicolson, *Curzon...*, p. 205; Wandycz, *The Polish Question*, p. 332.)
- 99 Nicolson, *Curzon...*, p. 205.
- 100 On the day the Russians crossed the Curzon Line, the German chancellor, Joseph Wirth, writing to Count Ulrich Brockdorff-Rantzau, the future German Ambassador to Russia, urged that the Polish problem be resolved either peacefully, or if that was impossible, 'Poland had to be finished off.' The German chancellor, also leader of the German Centre Party, went so far as telling Rantzau in October 1920 that a common boundary with Russia and the destruction of Poland should be the goal of German foreign policy. (Kurt Rosenbaum, *Community of Fate, German-Soviet Relations, 1922–28* [Syracuse University Press, Syracuse, New York, 1965], pp. 34, 45, quoted in Jan Karski, *The Great Powers & Poland, 1919–1945, From Versailles to Yalta* [University Press of America, Lanham, Maryland, 1985], pp. 84–85.)
- 101 Nicolson, *Curzon...*, p. 206.

- 102 Nicolson, *Curzon...*, p. 208.
- 103 See Skirmunt's efforts to associate with the Little Entente before turning to the Baltic states for regional solidarity in section (III) 5.3.3.
- 104 Martin Gilbert, *Sir Horace Rumbold, Portrait of a Diplomat* (London: Heinemann, 1973), pp. 142–43.
- 105 Rumbold to Kerr, 6 December 1919, MS. Rumbold dep. II/26.
- 106 Kerr to Rumbold, 15 December 1919, MS. Rumbold dep. II/26.
- 107 *Loc. cit.*
- 108 Referred to in the annual report on Poland for 1920, Max Müller to Curzon, 18 March 1922, FO 371/8143/N2900/2900/55.
- 109 Rumbold to the Foreign Office, 26 March 1920, MS. Rumbold dep. II/26, fol. 181. Emphasis in the original.
- 110 *Loc. cit.*, fol. 182.
- 111 *Loc. cit.*, fols. 185–86, unsigned minutes, 6 April 1920.
- 112 MS. Rumbold dep. II/27, fol. 91, also quoted in Gilbert, *Sir Horace Rumbold*, p. 204.
- 113 Rumbold to Humbert Denis Parodi (Head of the Interpreters' and Translators' Bureau of the League of Nations), 31 July 1920, quoted in Gilbert, *Sir Horace Rumbold*, p. 205.
- 114 *Loc. cit.*
- 115 Rumbold to E. C. Wilton (British Commissioner on the Teschen International Commission with the local rank of Minister, from October 1920, Commissioner and Consul General at Kovno, Lithuania), 16 September 1920, MS. Rumbold dep. II/27.
- 116 Gilbert, *Sir Horace Rumbold*, pp. 213–16
- 117 Max Müller to Curzon, 18 March 1922, FO 371/8143/N2900/2900/55.
- 118 *Loc. cit.*
- 119 Loraine to Curzon, 15 November 1920, FO 371/5414/N2927/2927/55. Prince Eustachy Sapieha was Polish Minister in London from 8 August 1919 to mid-1921.
- 120 Max Müller to Curzon, 23 December 1922, FO 371/9312/N30/30/55.
- 121 The Minister wrote that in late 1920 and early 1921 'no one felt safe from another invasion, so much so that [...] I refused to bring out the valuable plate belonging to the Legation so as not to have this additional encumbrance in the event of our having again to leave town.' (Max Müller to Curzon, 23 December 1922, *loc. cit.*)
- 122 Max Müller to Curzon, 18 March 1922, FO 371/8143/N2900/2900/55.
- 123 Max Müller to Curzon, 23 December 1922, FO 371/9312/N30/30/55.
- 124 One graphic illustration of the unease between the two countries was an incident that occurred in June 1921. The intelligence section of the Polish general staff 'forcibly detained' an official of the British Passport Office in Poland, alleging that the Passport Office was a 'secret intelligence bureau in direct communication with Mr. Lloyd George.' The official was only released after considerable

- pressure from London. (Max Müller to Curzon, 23 December 1922, *loc. cit.*)
- 125 Max Müller to Curzon, 18 March 1922, FO 371/8143/N2900/2900/55.
- 126 Max Müller to Curzon, 23 December 1922, FO 371/9312/N30/30/55.
- 127 Skirmunt would become Polish Minister in London from November 1922, see further below.
- 128 Fink, *The Genoa Conference*, pp. 111–12.
- 129 Zygmunt J. Gasiorowski, 'Polish-Czechoslovak Relations, 1918–1922.' *Slavonic and East European Review* 35 (1956): pp. 172–93.
- 130 *The Parliamentary Debates: Official Report. (Hansard) Fifth Series, House of Commons* vol. 151, col. 2178; FO 371/8142/N2513/2513/55.
- 131 Max Müller to Curzon, 23 September 1923, FO 371/9330/N8023/8023/55.
- 132 Fink, *The Genoa Conference*, p. 206.
- 133 Max Müller to Curzon, 23 September 1923, FO 371/9330/N8023/8023/55.
- 134 'Meeting of Members of the Sub-Commission of the First Commission', 29 April 1922, *DBFP*, I/XIX, doc. 102, p. 634; 'Note of a Conversation between Mr Lloyd George (accompanied by Hankey) and M. van Karnebeek', 2 May 1922, *Ibid.*, doc. 107, pp. 680–85; 'Meeting of Members of the Sub-Commission of the First Commission', 2 May 1922; *Ibid.*, doc. 108, p. 688; 'Note of a Conversation at the Villa Albertis, Genoa', 5 May 1922, *Ibid.*, doc. 113, p. 749; 'Memorandum of an Informal Meeting at the Villa Albertis, Genoa', 5 May 1922, *Ibid.*, doc. 114, p. 754.
- 135 Max Müller to Curzon, 23 September 1923, FO 371/9330/N8023/8023/55.
- 136 Hoare to Curzon, 20 June 1922, FO 371/8142/N6699/2513/55.
- 137 *Loc. cit.*
- 138 Emrys-Evans's minute, 14 July 1922.
- 139 Max Müller to Curzon, 6 November 1922, FO 371/8144/N10137/8034/55.
- 140 Max Müller to Curzon, 29 September 1923, FO 371/9330/N8023/8023/55, pp. 7, 33–35, 38; Richard J. Crampton, *Eastern Europe in the 20th Century* (London: Routledge, 1994), p. 43; Antony Polonsky, *Politics in Independent Poland, 1921–1939* (Oxford, 1972), Appendix B.
- 141 Lindsay's note, 23 August 1922, FO 371/8144/N8034/8034/55.
- 142 Curzon's minute, 24 August 1922, FO 371/8144/N8034/8034/55.
- 143 Max Müller to Curzon, 6 November 1922, FO 371/8144/N10137/8034/55.
- 144 Max Müller quipped at the end of his dispatch that 'Monsieur Wojciechowski mumbled a few unintelligible words of thanks.' When he saw the Polish Foreign Minister later in the afternoon, the latter told him that 'the President had begged him to let me know how touched he had been by my remarks.' (Max Müller to Curzon, 5 January 1923, FO 371/9309/N240/29/55.)
- 145 The British imprimatur was not accorded without provoking some diplomatic ripples. In a parliamentary question, Lieutenant-Commander Joseph Montague Kenworthy, an Independent Liberal, asked for confirmation that Britain still maintained 'diplomatic or consular representatives in Eastern Galicia. Ronald McNeill, Under-Secretary of State at the Foreign Office assured Kenworthy that

- Lieutenant-Colonel J. Whitehead, appointed in February 1920, remained at his post as British Vice-Consul in Lemberg. (Parliamentary question on 9 April 1923, *The Parliamentary Debates: Official Report. (Hansard), Fifth Series, House of Commons* vol. 162, cols. 851–52.) In June 1923, Yevhen Petrushevych, president of the National Ukrainian Council of Eastern Galicia, wrote a letter to Stanley Baldwin, the British Prime Minister, in which he protested against the British recognition of the status quo and Curzon's statement to the effect that the interested parties had 'accorded a friendly reception to the decision.' Petrushevych urged the recognition of Eastern Galicia as an independent state. No answer can be traced to his letter. (FO 371/9309/N5372/15/55.)
- 146 Max Müller to MacDonald, 1 July 1924, FO 371/10461/N5630/5630/55.
- 147 Reginald Leeper to Curzon, 25 June 1923, FO 371/9311/N5886/29/55.
- 148 Max Müller to Curzon, 24 August 1922, FO 371/8144/N8055/8055/55.
- 149 See section (III) 5.2.2.
- 150 Sackville-West to Hardinge, 23 September 1922, Hardinge to Curzon, 26 September, FO 371/8144/N8866/8055/55.
- 151 Witos himself was the leader of the moderate wing of the Peasant Movement within the coalition. (Norman Davies, *Heart of Europe, A Short History of Poland* [Oxford University Press, 1984], p. 122.)
- 152 Max Müller to MacDonald, 1 July 1924, FO 371/10461/N5630/5630/55.
- 153 See, for instance, the report on exchanges between the Polish government and Vytautas Petrulis, Lithuanian Minister of Finance, in early 1925, in Max Müller to Chamberlain, 16 October 1926, FO 371/11774/N4788/4788/55.
- 154 Ciechanowski to Seyda, 24 October 1923, no. 102, HW 12/51 no. 014638.
- 155 Ciechanowski to Seyda and Polish Legation, Paris, 27 October 1921, no. 103, HW 12/52, no. 014670.
- 156 HW 12/51 no. 014638.
- 157 Seyda to Skirmunt, no. 25, 18 February 1924, HW 12/55, no. 015901. Round parentheses and dotted line in original intercept transcript.
- 158 R. C. Thomson to the Foreign Office, 5 August 1925, FO 371/11005/N4484/-4484/55.
- 159 Brother of Allen Leeper, Balkans expert in the Central Department.
- 160 Reginald Leeper to Curzon, 25 June 1923, FO 371/9311/N5886/29/55.
- 161 Max Müller to MacDonald, 1 July 1924, FO 371/10461/N5630/5630/55.
- 162 Max Müller to Chamberlain, 10 February 1925, *DBFP*, I/XXV, doc. 438, pp. 860–62.
- 163 Max Müller to Chamberlain, 18 March 1925, *DBFP*, I/XXV, doc. 450, p. 877.
- 164 FO 371/10461/N5630/5630/55, p. 3.
- 165 Note that the National Democratic Party in Czechoslovakia represented a pro-western, urban orientation, while the National Democrats in Poland were a right-wing nationalist group. The British, for different reasons, did not maintain good relations with either group.

- 166 Max Müller to MacDonald, 1 July 1924, FO 371/10461/N5630/5630/55.
- 167 *Loc. cit.*
- 168 Max Müller to Chamberlain, 16 October 1925, FO 371/11005/N5966/5437/55.
- 169 Skirmunt to Polish Ministry of Foreign Affairs and Polish Legation, Paris, no. 10, 2 February 1924, HW 12/55 no. 015789.
- 170 Max Müller to Chamberlain, FO 371/11005/N5966/5437/55.
- 171 *Loc. cit.*
- 172 *Loc. cit.*
- 173 For details on the Hilton Young mission, see sections (III) 6.3 and 6.4.
- 174 Conversation with Léon Blum, Phipps to Chamberlain, 3 August 1925, FO 371/-10737/C10230/459/18.
- 175 Max Müller to Chamberlain, 16 October 1926, FO 371/11774/N4788/4788/55.
- 176 *Loc. cit.*
- 177 It is interesting to note that the Romanian government followed the tendency towards a Western guarantee pact with even greater anxiety than the Poles did. As the British Minister in Bucharest, Sir Herbert Dering, reported on 18 March 1925, Ion Duca, the Romanian Foreign Minister, declared that the pact would 'divide Europe into two parts—the guaranteed and the unguaranteed, [and] even if Poland and Czechoslovakia were eventually brought into the guaranteed area, Roumania would still be excluded and thrown on her own resources.' Duca also pointed out that Europe should also be guaranteed against Russian designs, which was, in his view, the real 'danger point of Europe.' (Dering to Chamberlain, 18 March 1925, FO 371/10729/C4204/459/18.)
- 178 Max Müller to Chamberlain, 16 October 1926, FO 371/11774/N4788/4788/55.
- 179 *Loc. cit.*
- 180 See section (II) 3.10.
- 181 Memorandum by Headlam-Morley, 17 March 1925, FO 371/10729/C3975/459/-18.
- 182 The word 'appeasement' evidently did not carry the loaded undertone that it would acquire a decade or so later. In fact, judging from Headlam-Morley's argument, it was used in an anti-revisionist context.
- 183 My italics.
- 184 The Poles, according to Headlam-Morley, 'have been very aggravating and very foolish' when, in the course of arranging railway transits, they behaved obstructively. At the same time, '[o]n one point, the Poles, not the Germans, have real cause for complaint.' The Treaty of Versailles assured them full control over the harbour. A later treaty altered this and put control into the hands of a Board on which Poland and Danzig were equally represented. This decision, in Headlam-Morley's opinion, needed to be reversed in order to obtain an equitable resolution, even if such a ruling would cause resentment among the Germans.
- 185 Sterndale Bennett's minute, 21 March 1925. Lampson's undated initials indicate that the memorandum was dealt with under the aegis of the Central Department.

- 186 Headlam-Morley's memorandum, 'The History of British Foreign Policy and the Geneva Protocol', 12 February 1925, FO 371/11064/W1252/9/98.
- 187 Chamberlain to D'Abernon, 18 March 1925, *DBFP*, I/XXVII, doc. 255, p. 399.
- 188 Ephraim Maisel, *The Foreign Office and Foreign Policy, 1919–1926* (Brighton: Sussex Academic Press, 1994), p. 174.
- 189 CAB 23/49, C17 (25).
- 190 *The Parliamentary Debates: Official Report. (Hansard), Fifth Series, House of Commons*, vol. 182, cols. 320–21.
- 191 Max Müller to Lampson, 23 May 1925, FO 371/10732/C6984/459/18.
- 192 Édouard Herriot's government collapsed on 10 April. He was replaced as Prime Minister by Paul Painlevé and by Aristide Briand as Foreign Secretary on 17 April. Briand soon assumed the premiership as well as retaining the post of Foreign Secretary.
- 193 Chamberlain to Max Müller, 28 July 1925, *DBFP*, I/XXVII, doc. 430, p. 706.
- 194 Max Müller to Chamberlain, 16 October 1926, FO 371/11774/4788/4788/55. Cf. identical remarks made by Clerk regarding Anglo-Czechoslovak relations in the same period. (Section II.3.10)
- 195 Skrzyński's failed attempts to sway Beneš away from wholehearted co-operation with the western negotiations are recorded in sections II.3.10 and 3.11.
- 196 Cienciala and Komarnicki, *From Versailles to Locarno*, p. 243.
- 197 Later, as part of Russian foreign political manoeuvrings in September 1925, Chicherin told the Polish Foreign Minister that by advocating the new Western pact the British government were 'working to create a common front against Soviet Russia,' but Skrzyński refused to adhere to this view. (Max Müller to Chamberlain, 23 September 1925, *DBFP*, I/XXV, doc. 490, p. 933, p. 934, note no. 7; Max Müller to Chamberlain, 29 September 1925, *DBFP*, I/XXV, doc. 493, pp. 939–941.)
- 198 Conversation with Polish Minister, 19 May 1925, FO 371/10733/C10079/459/18.
- 199 Reference to an earlier part of the article where Rosner described how Lord Salisbury's demand, in 1870, for intervention to stop the German annexation of Alsace-Lorraine had been ignored by Gladstone.
- 200 Snow to Chamberlain, 29 April 1925, FO 371/10731/C/5902/459/18.
- 201 Max Müller to Chamberlain, 24 September 1925, *DBFP*, I/XXV, doc. 491, pp. 935–36.
- 202 Cienciala and Komarnicki, *From Versailles to Locarno*, p. 270.
- 203 Conversation in Locarno between Victor F. W. Cavendish-Bentinck, former Third Secretary at the British Legation at Warsaw, and Kisielnicki, Private Secretary to Skrzyński 11 October 1925, *DBFP*, I/XXV, doc. 494, p. 942.
- 204 Cienciala and Komarnicki, *From Versailles to Locarno*, pp. 274–75.
- 205 18 November 1925, *The Parliamentary Debates: Official Report. (Hansard), Fifth Series, House of Commons*, vol. 188, col. 429.
- 206 Max Müller to Chamberlain, 16 October 1926, FO 371/11774/N4788/4788/55.

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- 207 *Loc. cit.*
- 208 *Akten zur deutschen auswärtigen Politik* 1, part 1, p. 745, quoted in Cienciala and Komarnicki, *From Versailles to Locarno*, p. 274.
- 209 See section (II) 3.10.
- 210 D'Abernon to Chamberlain, 26 November 1925, *DBFP*, I/XXV, doc. 500, pp. 952–53.
- 211 Assistant Secretary of the Board of Trade to Owen O'Malley (Northern Department), 27 July 1922, FO 371/8144/N7192/7192/55.
- 212 Max Müller to Curzon, 23 December 1922, FO 371/9312/N30/30/55.
- 213 Exchanges between Prince Sapieha and Sir Percy Loraine, *loc. cit.*
- 214 Max Müller's barbed comment on the occasion was that the Polish mark 'remained stable for several weeks.'
- 215 Max Müller to Curzon, 29 September 1923, FO 371/9330/N8023/8023/55.
- 216 An agreement was negotiated in 1920, giving a guaranteed two-fifths share in Polish oil exports in return for a bank advance of 100 million French francs. The deal remained conditional upon the conclusion of a political and military agreement between France and Poland, which was signed in February 1921, and provided for a 400 million franc advance payment. This advance was not approved by the French parliament until December 1923. (Georges Soutou, 'La politique économique de la France en Pologne (1920–1924)', *Revue historique* 251 (1974): , pp. 85–116, cited in Orde, *British Policy...*, pp. 120–21.)
- 217 Max Müller to Curzon, 23 December 1922, FO 371/9312/N30/30/55.
- 218 Annual Report on Poland for 1924, Max Müller to Chamberlain, 16 October 1925, FO 371/11005/N5966/5437/55; Reginald Leeper to Lampson, 28 July 1923, FO 371/9311/N6788/29/55; Minutes of a meeting between Montagu Norman and Feliks Młynarski, vice-president of the Bank of Poland, 1 September 1925, BoE OV110/21. One of the contributing factors to the high volume of trade between Poland and Germany was that under the Treaty of Versailles, Germany was obliged to take 500 thousand tons of coal per year from Upper Silesia until June 1925. (Jerzy Tomaszewski, 'German Capital in Silesian Industry in Poland between the two World Wars' in Alice Teichova and P. L. Cottrell, eds, *International Business and Central Europe, 1918–1939* [Leicester University Press, 1983], p. 236.)
- 219 Max Müller to Chamberlain, 16 October 1925, FO 371/11005/N5966/5437/55.
- 220 Max Müller to MacDonald, 1 July 1924, FO 371/10461/N5630/5630/55.

CHAPTER 6

Britain and Poland: Financial Diplomacy with Barriers

6.1 BACKGROUND: THE DAUNTING LEGACY

Poland's economic and financial difficulties surpassed those of every other country in the region. The economic ties between the territories from which Poland was reconstituted had been very loose.¹ This resulted from a deliberate policy on the part of the partitioning powers, and the situation was further complicated by the dissimilar nature of the imperial and dynastic possessions that had made up the patchwork of Polish territory. The war resulted in huge damage to property, which was particularly serious in the Russian zone and in Galicia.² In addition, the war for Poland did not end until March 1921, when peace was signed with Soviet Russia. Every part of occupied Poland had different legal codes, currency, customs regulations, taxes, railway systems, and different rules for corporate business and accounting. Overall, the reconstituted Poland had nine different legislative-legal systems. By the end of the war, given the added complications of war-time occupation zones being superimposed on previous historical zones of partition, five different currency units were in use: the German mark in the Prussian zone, the Polish mark in the Kingdom of Poland under the German occupation, the Austrian crown in Galicia, ost-roubles in the eastern territories occupied by Germany, and roubles in the other areas of the old Russian partition zone.³ There had existed no plans in advance for the economic and financial unification of the country, and even more surprisingly, none were worked out upon the creation of the resuscitated state in November 1918. To eliminate the differences at a stroke would have required vast resources which were simply not available. Initially, the work was accomplished largely through improvised decisions by officials appointed for specific tasks.

Institutional reforms were based on preliminary organisation carried

out in the German-occupied Kingdom of Poland, where the Regency Council had, in 1916, created a Ministry of Treasury as well as a note issuing bank for the mark, which operated as a state bank for Poland until its abolition and replacement by the Bank of Poland in 1924. The Polish *Sejm* passed a law on the uniform structure of fiscal authorities and offices, which came into force on 1 April 1920.⁴ But the unification process took three and a half years in most areas. The effect of the laws only 'spread' gradually from the central provinces to the lands incorporated in the Treaty of Riga by the end of 1921, and to the former Prussian sector and Vilna by 1922. In Galicia, the uniform structure could not be imposed until the autumn of 1925. Even after that date, special regulations remained in force in Upper Silesia.⁵ The unification of the land tax system was not completed until 1936, and laws governing tax and trade would not be finalised before the outbreak of the Second World War.

The issuing banks of currencies in circulation other than Poland's own were outside the territory of Poland, which made it impossible to set a commonly acceptable rate of exchange among these currencies. A ban on imports of money from the former partitioners was introduced, and by April 1920, Austrian crowns, German marks, and Russian roubles were withdrawn, and replaced by the Polish mark, as the only authorised means of payment. In Upper Silesia, the Polish-German Convention of 15 May 1922 required that the German mark remain the only legal tender for the next fifteen years. However, by the end of 1922, the rapid decrease in the value of the German mark led to the use of the Polish mark on equal terms, which prompted the Polish government to renounce the Convention as of 1 November 1923.⁶ The difficulties of currency unification were compounded by the fact that most of the regulations were not observed by local officials.

With a nominally unified currency, the Polish mark, the state could increase the money supply to compensate for small budgetary revenue to whatever extent it wished. An unusual attitude, echoed in recent studies, was taken towards the inflation which resulted from this policy. Because inflation has a radical levelling effect, in Poland, at least initially, it could be said to have had a positive role in standardising prices and wages throughout the country and thus speeding up political and economic unification. Zbigniew Landau argues that 'with a stable currency

this process would [have been] much more painful,⁷ as it would have required the increase of wages where they were relatively low, and their reduction where they were relatively high. Inflation in Poland also had a levelling influence on manufacturing costs, tariffs, customs duties and taxes. Another 'benefit' was that the role of the issuing bank was enhanced by its granting rediscount credits to major private banks from different regions of the country, thus reducing their dependence on traditional links with the banks of the former partageants. One further unificatory effect of inflation was that, fearing the fast depreciation of the national currency, holders of Polish marks purchased durable goods, which led to the flow of goods across boundaries of provinces that had sparse commercial relations before.

It was impossible, however, to disregard the fact that whereas at the end of the war's end the price of one dollar was eight Polish marks, by the end of 1923, one U.S. dollar cost approximately six million Polish marks,⁸ and worse was to come. The dire consequences were severe trade controls, food rationing, the use of the American dollar in medium and large volume transactions, and, in many instances, a barter economy. The regulations favoured the zones with the better economic backgrounds, especially the Prussian sector. To prevent this from becoming a permanent feature, a customs border was established between the former Prussian zone and the rest of the country, which was only abolished in mid-1921.⁹

6.2 BRITAIN AND EARLY ATTEMPTS TO STABILISE THE FINANCIAL SITUATION IN POLAND

The conditions for British involvement in financial reconstruction, especially on the basis of Montagu Norman's principles, were, therefore, not favourable in Poland. Any foreign-backed scheme faced resistance to severe measures against inflation, and they would have to deal with Finance Ministers who were in full command of note issuing. Above all, the Poles were the most resistant of the three countries examined here to the imposition of foreign control, which any reconstruction loan would have entailed. They were specifically wary of the League of Nations schemes as implemented in Austria and Hungary in which the Bank of

England drew up most of the rules. They saw behind them a conduit for Germany to regain its financial and economic might in Central Europe.

It was on General Sikorski's initiative,¹⁰ encouraged by Max Müller,¹¹ the British Minister in Warsaw, that, at the beginning of February 1921, the Polish Ministry of Finance sought advice on Poland's financial ills from a British source. The reason given was that 'Poland possessed no financier capable of extricating her from her desperate financial position.'¹² The British government offered to send Commander Edward Hilton Young,¹³ to be accompanied by an exchange banker and an Inland Revenue expert. The team was to examine and report fully on the financial position in Poland and to propose remedial measures. The mission could not, in the end, set out for Poland, as Hilton Young was appointed Financial Secretary to the Treasury. The Upper Silesian insurrection broke out shortly afterwards, and the British regarded the circumstances unsuitable for the appointment of a substitute mission. The offer was renewed at the end of the year, but, as the Polish government fell, Michalski, the Finance Minister of the succeeding government, considered that a foreign mission of enquiry was no longer necessary, 'British or otherwise.'¹⁴ However, from February 1921, the financial situation in Poland steadily deteriorated: from 3,000 marks to the pound, by December 1922, the exchange rate of the Polish currency fell to 70,000 marks.¹⁵ At this stage, many in Poland, including an Anglo-Polish financial expert, Sir Michael Rutkowski, deemed that the situation could only be relieved by a foreign loan injection 'on terms similar to the Czecho-Slovakian.' Rutkowski met Reginald Hoare, First Secretary at the British Legation in Warsaw, and outlined a scheme, which would have involved 'a 10 million pound loan to be secured on the customs and tobacco monopoly,' and which 'he hoped to get out of Barings & Rothschilds.' In response, without going into details, Hoare 'mildly suggested that it was perhaps rather too soon after the crisis which [...] has considerably lowered Polish stock in England.' When the British diplomat tried to find out whether the initiative had the backing of the new Polish Finance Minister, Zygmunt Jastrzebski, he was told that 'for the present [there was] no intention of allowing feelers for a loan to be put out.' The Minister added that he was aware that 'Blackett¹⁶ and [...] possibly Sir Robert Horne'¹⁷ in London would rather like to float such a scheme.¹⁸ As

Poland's financial problems worsened, Jastrzebski's opinion changed. In November 1922, Max Müller met the Finance Minister, to discuss the matter of Polish finances, which Max Müller called a 'threadbare subject.'¹⁹ In order to balance the Polish budget, Jastrzebski now inquired whether it would be possible to float a loan on the London market. Max Müller answered that 'this was not possible.' However, in the British Minister's view, 'Hilton Young (who was no longer Financial Secretary to the Treasury) could still be available as an expert, and his report could ultimately facilitate the floating of a loan on the London market.' A few days later, Jastrzebski called on Max Müller, and told him that he had discussed the idea of the renewal of the offer to Hilton Young with the Prime Minister, Julian Nowak, the Minister of Commerce, Henryk Strasburger, Narutowicz, the new Foreign Minister as well as Władysław Wróblewski, the Polish Minister in London and Konstanty Skirmunt, soon to take the latter's place, and they were all 'warmly in favour' of the proposal. By this time, Hilton Young had become known to the Poles from the international conferences in Genoa and The Hague.²⁰ A few weeks before, Max Müller had been to London where he had sounded Warren Fisher, permanent Under-Secretary at the Treasury, and Sir Basil Blackett, the controller of finance at the Treasury, about the renewal of the British plan. Blackett endorsed the plan in a letter to Sir William Tyrrell, Assistant Under-Secretary of State at the Foreign Office. Max Müller specifically asked about the attachment of an inland revenue official, and was told that the Treasury could 'guarantee him a man if the Poles ask for him.'²¹ Within a few days, John Duncan Gregory, head of the Northern Department, reopened the question of a mission to Poland with Hilton Young in London. The former Financial Secretary informed the Foreign Office that he 'always felt rather disturbed about having to disappoint the Poles,' and now he 'might feel bound to go.'²² He was 'not optimistic' about the trip; as he remarked, the 'Poles must stop printing money.' But he felt that the Minister of Commerce, Strasburger, was a 'sharp fellow, [who] would be helped against his politicians by western report to back him up.' Hilton Young also suggested that it would be necessary for him to be accompanied by 'someone who was good at central banking.' He mentioned David Waley,²³ assistant to Sir Frederick Leith-Ross²⁴ at the Treasury, and R. G. Hawtrey,²⁵ the Director

of Financial Enquiries, as possible candidates for the job, and surmised that 'a month or six weeks on the spot would be enough for all the good that one could do.'²⁶ Gregory judged that a mission under Hilton Young would enhance British prestige in Poland,²⁷ which had not been high during Lloyd George's premiership. However, yet again, Hilton Young had to cancel the trip, as he was appointed Chief Whip to the National Liberal Party,²⁸ and Max Müller was notified to 'suspend action.'²⁹ By this time, the situation acquired an element of absurdity and Gregory felt the need to apologise to the British Minister in Warsaw: 'There is clearly a fate against [Hilton Young's] going to Poland, and the mere suggestion of it seems to bring him an appointment at home! I am awfully sorry.'³⁰ Even if Hilton Young could be made available, Max Müller was unable, for the moment, to engage anyone on the subject in Warsaw. This drove him to remark that '[i]t is despairing to see the political leaders of the country have learnt nothing in a hundred and fifty years and still prefer the interests of their party and their caste to the welfare of their country, even if a fourth partition of Poland were in prospect.'³¹

6.3 REGINALD LEEPER'S REPORTS AND HILTON YOUNG'S FIRST VISIT TO POLAND

During the summer months of 1923, the financial crisis became acute, the Polish mark plunged downwards at a pace unusual even for Poland. Various remedies by several new Ministers of Finance were tried without success.³² It was at this time that Reginald Leeper, Russian expert at the Northern Department, who was on a fact finding mission in Poland, sent a number of reports addressed to Miles Lampson, Head of the Central Department, where the German financial crisis engendered interest in the likely connections between the situation in Germany and the lasting financial malaise in Poland. In these rare instances of inter-departmental co-operation, Leeper explained, as he saw it, the mechanism through which the German collapse affected Poland. Referring to the crisis in the Rhineland, Leeper expressed consternation about the fact that the Poles 'did not pay any particular attention to what was hap-

pening in Germany...' Some casual public statement had been made in Poland to the effect that the Polish hyper-inflation was due to the Germans' dumping large quantities of the Polish mark to bring down the Polish mark to their level and so to keep the Polish market open for themselves. In Leeper's view, the simple connection was that as '60 per cent of Poland's exports went to Germany and as these were paid for in German marks, the depreciation of the latter naturally injured Poland's capacity to import from countries with a good rate of exchange and brought down the rate of the Polish mark.' The Polish government tried to stem the tide by creating a 'Devisen Zentrale' to limit the amount of foreign currency available for purchase. Such an institution had already operated with the desired effect, as a temporary measure, in other Central European countries. In Leeper's view, the German crisis could, to a large extent, be blamed on the French occupation of the Rhineland, but he had 'not yet succeeded in discovering any public criticism of the French action' in Poland. The British expert judged disapprovingly that '[t]he reason for this is that the Poles attach far more importance to politics than economics...'³³

The next move of the Polish government in their search for a way out of the financial quandary was to instruct Skirmunt in London to extend a new invitation to Hilton Young, and simultaneously to send the Finance Minister Władysław Kucharski to London to open negotiations for two separate loans. Kucharski's visit in October 1923 coincided with the commencement of Hilton Young's work in Warsaw, which was aided by three assistants, the banking and tax experts of the Treasury, Frank Nixon,³⁴ and J. H. Penson, and H. A. Trotter of the Bank of England, who had just retired from the deputy governorship of the Bank.³⁵ In London, the Polish Finance Minister negotiated with the Morgan group for a loan 'to facilitate the creation of a bank of emission.' During the talks, the London representatives of J. P. Morgan informed Kucharski about their experiences in Czechoslovakia, Austria and Hungary; that for a successful new central bank, a capital of 150 million Swiss francs, i.e. 150 million new Polish złotys, the reformed currency which was to be at par with the Swiss franc, were required.³⁶ According to the plan contemplated by Kucharski, the Polish state would be allowed to have a share

of up to 25 per cent in the new bank, and no foreigners would be allowed to hold shares. *The Manchester Guardian* reported from Vienna that an 'agreement had been concluded with the Morgan firm concerning the founding of a Polish issue bank with a capital of 30 million dollars with a syndicate of British financiers, with the Morgan firm participating.'³⁷

The second loan that Kucharski set out to negotiate was a so-called 'consumption loan' to cover the 'unavoidable excess of expenditure over revenue pending the attainment of a balance in the budget.' Kucharski wished to keep the two loans and their sources separate. He intended to obtain the support for this secondary loan on the British money market, which was 'beginning to interest itself in Poland.' To explain to his Polish audience on his return home why he had to engage, in this connection, in talks with the Governor of the Bank of England, whose foreign control schemes the Poles were loath even to contemplate, Kucharski declared: 'It is the practice in England for any person who wishes to carry through credit operations [...] to inform the Treasury [...] and to take into consideration the views of the Bank of England.' In conversation with Norman, Kucharski had asked for a loan fixed at 50 million U.S. dollars at a rate corresponding to the precedents of other Central European countries, i.e. '7½–9½ per cent', which would be raised by a consortium of eighteen British banks. Norman bluntly told him that any 'negotiations must necessarily depend on the outcome of Commander Hilton Young's mission of investigation.'³⁸

While Kucharski admitted in Poland that 'I have returned with nothing in my trunk, neither dollars nor pounds,' he also raised expectations. So much so, that by the time Young arrived, 'the impression got about that Commander Hilton Young's arrival meant a British loan,' and this rumour had to be dissipated by Young's commission.³⁹ For Kucharski, and the conservatives whom he represented, it was necessary to explain that by hiring the services of British experts, they had 'not fallen so low as to submit to the control and guardianship of foreign officials.'⁴⁰ In any case, Kucharski told the Polish media that the foreign experts were not employed by the present government, they 'merely took over the inheritance of [their] predecessor.'⁴¹ The Polish Minister assured reporters that to secure a loan, he had 'not pawned anything' in London, 'neither the customs, nor the monopolies nor the Bialowicz forest. We have sim-

ply given an obligation [to the Morgan group] in the form of a script,' the acceptance of which proved, as Kucharski wished to convey, 'the confidence felt in the Polish Government.'

6.4 THE YOUNG REPORT

The Hilton Young inquiry was held up yet again by the personal circumstances of the head of the mission. 'In the very middle of his task,' Young was summoned back to Britain in November to fight for his seat in the general elections of December 1923. Before he left, however, he had come to an agreement with the Polish government that he would leave Nixon in charge and would return himself at the first opportunity.

The advent to power of Grabski's non-party administration (in office from 19 December 1923 to 13 November 1925), created a new situation for the British mission of advisers. A former Finance Minister, Grabski, was charged with the sole task of financial reform. The main issue facing him was whether, following the examples of Austria and Hungary, to accept a League of Nations scheme, or to achieve lasting stabilisation by means of the country's own resources only. The two different solutions prompted intensive politico-economic debate in Poland. One group, headed by the economist and statesman, Adam Krzyżanowski of the Jagiellonian University of Cracow, advocated reform with foreign co-operation, either using the facilities offered by the League of Nations or of the USA.⁴² The other school, seated in Warsaw, was led by Prime Minister Grabski, who believed in recovery through the country's own efforts, which, admittedly, required huge sacrifices from the population and great stamina from the politicians.⁴³ Immediately after coming to office, Grabski, who was both Prime Minister, and Minister of Finance, laid before the Polish diet an Emergency Powers Bill, which authorised him to adopt, without reference to Parliament, the measures required for his scheme.⁴⁴ The bill, which became law on 3 January 1924, empowered the Polish government to contract a loan of up to 500 million zlotys or gold francs, and to introduce virtually any change in fiscal and financial administration within the limits of the constitution.⁴⁵ The climate, therefore, in which the Young mission would operate, had already been prej-

uduced by government action. In spite of this, in conversations with Frank Nixon, probably responding to public pressure for prompt results, Grabski urged the early return of Commander Hilton Young, and even favoured the extension of his mission by calling in additional technical instructors 'to advise on the improvement of the whole administrative apparatus.'⁴⁶ In consultation with the Treasury, Hilton Young set out to enlist the services of suitable British experts in the various branches. However, on his return to Warsaw, on 25 January 1924, Young learnt during his first interview with Grabski that the Polish premier had changed his mind. Instead of the plan for a full mission, he reverted to the original concept, and asked the British expert to prepare a report upon the submission of which his mandate would terminate. The Polish government would then decide whether and how far they would follow the recommendations of the report, with special regard as to whether they would ask for foreign assistance. Young had also been confidentially advised by Nixon, who had been acting Head of the Financial Committee of the League of Nations for almost two years before his appointment to the Polish commission, that Poland had a more nationalistic government than any of the states for which the League had organised reconstruction schemes, and that, in Nixon's judgement, the Polish administration was not capable of carrying out a reform programme. Neither would they accept any foreign control. Nixon recommended, however, that British instructors be appointed to Poland.⁴⁷ In these circumstances, Young only stayed as long as it was necessary to prepare the report on the state of Polish finances and add his recommendations.

The Young Report, personally addressed to Grabski, as Minister of Finance, submitted on 10 February 1924, was divided into three parts: (a) a description of the 'outstanding features of the financial situation' at the time of Young's visits; (b) analysis of the causes of the difficulties and of the 'evils that result to the social and economic life of the country'; and (c) remedial measures.⁴⁸ In Young's assessment, the post-war governments of Poland 'sought to travel too fast along the road of social reconstruction and reform, [introducing] measures for the improvement of social standards [...] that would have been too expensive for the wealthiest State.'⁴⁹ Nonetheless, the report granted that a good beginning had been made. The obvious remedy urged by Young was to balance the

budget by drastic economies, i.e. higher taxation and reduced expenditure, and through loans. The expert advised the reduction of the army estimates which were high in spite of the relatively low numbers of men serving in the forces, and found it important to separate the railway budget from the general budget and to postpone any capital outlay on the railways. He was strongly opposed to the establishment of a bank of issue and the creation of a new currency until this had been done.

Young enumerated the favourable elements of the situation as compared to other countries in the region. He found that Poland's national debt was relatively small. Further, Poland was not burdened by reparations,⁵⁰ which posed formidable difficulties in the way of the financial reconstruction of other states. However, the fall in the exchange value of the mark, from 3,442 marks to the dollar on 31 January 1922 to a staggering 6,400,000 marks to the dollar by the end of 1923,⁵¹ could only be reversed through the introduction of economies. It is worth noting that the British expert refrained from mentioning the contentious issue of the 'liberation debt' in respect of which Poland owed 190 million gold crowns to the Western powers.⁵²

Young arrived at the conclusion that Poland was not in a position to raise from direct taxation, customs and excise, levy on property and the valorisation of such taxes on a gold basis, more than 900 million gold francs, and recommended that the estimates of expenditure for 1924 should not exceed that figure. He deemed that the time had not yet come 'to fix a date for the substitution of a limited currency, on a sound basis, for the mark,' since, '[a]s long as there is any reasonable possibility that inflation may have to continue in order to cover a deficit, [...] it might result in the new currency following the disastrous course of the old.'⁵³ Young suggested, beyond the increase of inland revenue, recourse to loans. As he put it: 'Under normal circumstances, that a country should have to borrow to meet expenses is the surest sign of reckless and extravagant finance. There is, however, a method of covering expenses worse even than borrowing, and that is inflation.'⁵⁴ In regard to internal borrowings, 'the bonds to be offered by the State should inspire complete confidence as to the terms of their redemption on a gold basis.'⁵⁵ Young appreciated that a foreign loan was difficult to contemplate for the Poles. Also, '[t]he favourable moment [...] for approaching the foreign money

markets has not yet come. It will come when Poland has made her effort.' When that time arrives, 'the nation should not hesitate to pledge its assets: there is nothing uneconomic in charging assets in order to increase their own productivity or that of the country as a whole.' The assignment of rights in the state forests and railway revenue would become necessary. Touching upon the most sensitive issue of all, Young declared that 'to obtain the help of foreign capital before balancing its budget and stabilising its currency, a State must be prepared to allow a measure of influence over financial policy and a measure of superintendence over financial administration to the representatives of the lenders.' This is a lesser evil than the 'shattering blows [...] of continued inflation.' But even if Poland refrained from raising loans abroad which required controllers, Young considered it 'very desirable to contemplate the possibility of inviting a mission of technical experts to visit Poland for a period of one or two years.'

In regard to the establishment of a new bank of issue, Young declared that '[i]t is contrary to sound principles that the State should participate to any extent in the capital of a central bank [...] Any infringement of this principle must seriously affect confidence in the independence of the bank.' Subscriptions to the bank's capital 'must be cash subscriptions. To finance the bank with paper in any manner or measure would be direct inflation and tend to aggravate the very evils in the remedy of which the bank is designed to assist.' The new bank, which should not start operations until the issuing of the new currency, 'will need to control as large a fund as possible of the currencies of countries with stable exchange, dollars, sterling and so forth, to be used as reserve for the protection of Polish currency from undue fluctuation in exchange value.' That reserve may also be held in trade bills. In addition, 'no device of any sort should be adopted by which [...] artificial fresh credits should be obtained by the State' from the newly constituted bank. Young reiterated in his final conclusions that no attempt should be made to make the change from the old currency to the new before the mark 'attained a substantial measure of stability.' Whether to wait until the mark is completely stabilised, and whether to allow the mark and the new currency to circulate for a time simultaneously could be left the government's discretion. Young suggested that it was desirable to interpose an 'interme-

diated period during which the new currency should only be issued against the currencies of countries with stable exchanges...⁵⁶

These sentiments, which were an accurate reflection of the governor of the Bank of England's precepts for currency reform, were not, on the whole, approved by the Polish government, and by Prime Minister, Grabski, in particular. In the words of the British Minister in Warsaw, 'M. Grabski, who suffers from the twin faults of conceit and obstinacy, refused to follow the principal lines of Commander Hilton Young's recommendations,' and Young 'finally left without achieving anything definite.'⁵⁷ A limited measure of the British recommendations, however, were implemented, such as the introduction of higher taxation, reduced expenditure, valorisation of state revenue on a gold basis, monthly budgets, and monopolies for the sale of tobacco and spirits. Unfortunately, as Max Müller reported, 'the system of revenue collection in Poland ha[d] always been defective, and evasion of payment the rule rather than the exception.' To counter this, Young had recommended foreign advisers in various branches of the state administration, but, in Max Müller's words, 'Polish megalomania prevented the adoption of this wise suggestion.' Nevertheless, as a result of Grabski's own reforms, the collection of revenues in Poland improved in the course of 1924 beyond expectations, with 'fairly good results for the Exchequer.'⁵⁸ On the basis of these results, the Polish government deemed the situation suitable for the establishment of a central bank irrespective of the caveats set out in the Young Report.

6.5 THE ESTABLISHMENT OF THE BANK OF POLAND AND THE ISSUING OF A NEW CURRENCY

Armed with their special powers, the Polish government ended their credit with the National Loan Bank on 1 February 1924, and appointed a committee to organise a new bank of issue. The printing of fresh banknotes was prohibited, and ministers were made personally responsible for strict adherence to the monthly estimates. It was regarded in Poland that as of that date, inflation was at an end.⁵⁹ On 2 April, Grabski informed the Budget Committee of the Polish Parliament that the reserve of

foreign currency had been increased from 2 million dollars to 18 million, and that great economies had been effected in public expenditure, though Max Müller reported that the army estimates had remained practically unchanged. Taxes had also increased and 2 million francs had been put aside to pay foreign debts, half a million dollars had already been paid to the United States, and, most importantly, 92 per cent of the capital of the Bank of Poland had been subscribed by private individuals.

Based on these achievements, on 28 April 1924, the mark, which had originally been imposed as a legal tender by the Germans in Congress Poland, was replaced by the new *złoty*, one *złoty* equalling one gold (pre-war) franc or 19.3 U.S. cents.⁶⁰ The rate of conversion between the old currency and the new was fixed at 1,800,000 marks to the *złoty*.⁶¹ Acting on Hilton Young's advice, state revenues had been placed on a gold basis. Up to 25 June payments were to be allowed in both currencies. From 1 July the mark ceased to be legal tender, though it would continue to be exchangeable at the Bank of Poland until 31 May 1925.⁶²

Also on 28 April 1924, the Polish National Loan Bank closed and the Bank of Poland (*Bank Polski*) was inaugurated. The bank was a joint stock company, independent of the government, though the latter had the right to appoint its president and vice president. The subscriptions in the country were so overwhelming that all but one per cent, close to the zero recommended by Young, of the stock was held by the public.⁶³ The Bank of Poland received the exclusive right for twenty years of issuing notes, which would be covered to an extent at least 30 per cent by gold or foreign currency at par with gold, which target was exceeded, and stood at 64.9 per cent at the end of 1924. The *złoty* exchange remained stable until the end of the year at 5.18½ *złotys* to the dollar. On 10 June, the Polish Parliament passed a regular budget for the first time, instead of the rough provisional estimates that had been possible so far.

The economic package, which was thus introduced in Poland under Grabski, with the selective application of Young's proposals, was a classical deflationary programme which had been put in place in most European countries, including the United Kingdom. However, little was done in Poland to ensure lasting results. The new currency and the central bank were not ring-fenced with the safeguards, most particularly

a foreign-backed stabilisation loan, which had been imposed on Austria and Hungary. Prices began to rise again towards the end of 1924, and there was a shortage of both credit and currency, 'producing disorder in industrial centres.'⁶⁴ The state budget had provided for a revenue of 1,423 million złotys and an expenditure of 1,592 million złotys, but additional credits amounting to 125 million złotys were voted in November bringing up the expenditure to 1,717 million, anticipating a deficit of 294 million. Loans, like the 400 million lira loan obtained in March 1924, and bullion were used to avoid a deficit before the year came to a close.⁶⁵ It was recognised that the country had reached the limit of its taxable capacity.⁶⁶ While the British Minister in Warsaw recognised that credit had to be given for the limited achievements of the programme, like the disappearance of wild speculation in exchange, the fact remained that the reforms never really took off the ground. The Polish state was indebted to a total figure of 75,402,248 pounds sterling.⁶⁷ The share markets began a downward spiral, due partly to shortage of currency and partly to industrial depression. It was understood that the public accounts for 1925 would close with a deficit.⁶⁸

An analysis of the foundation of the new Bank of Poland was studied by Norman in London.⁶⁹ The report stated that 'while the Polish currency stands at par with gold currencies of other countries, this Polish currency is nothing but a "cross of gold" to which the Bank of Poland is trying to nail the Polish Body Economic.'⁷⁰ Joined by Norman, as the *italicised*⁷¹ part shows, the authors of the memorandum believed that the situation of the currency in Poland would be 'entirely different' if the Bank of Poland had had at its disposal *a special foreign reserve credit extended exclusively for the purpose of making permanent the stabilisation of the currency, and for unforeseen contingencies such as poor crops, etc.* It was added that

[t]he stabilisation of the German Mark, of the *Austrian* Krone and of the *Hungarian* Krone was based on such foreign credits. [...] No wonder, therefore, that the stability of the Polish Zloty, not based on any reserve credit, is being considered in many instances by financial circles in foreign countries as lacking permanency.⁷²

By the middle of 1925, the purely financial difficulties were compounded by a partial failure of the crops necessitating large purchases of corn and of other articles abroad, and the strain began to show on the new currency, which began to depreciate. The new bank was compelled to suspend meeting in full the demands for foreign exchange, and confidence, both at home and abroad, was shaken. Max Müller in Warsaw was quick to point out that these developments were the result of the effective rejection of Young's recommendations, disregarding, in particular, his warnings against exaggerated expenditures, especially in the Ministry of War, and the premature introduction of the new currency.⁷³

6.6 POLAND, THE BANK OF ENGLAND, THE BRITISH TREASURY, AND THE FINANCIAL COMMITTEE OF THE LEAGUE OF NATIONS

Norman followed the developments in Poland closely. In September 1923, he received a detailed briefing on the difficult banking and general conditions in Poland, originally drawn up for the Chairman of the Accepting Houses Committee by an Anglo-Polish expert, S. de Bilinski.⁷⁴ The report revealed that 'French Capital has [...] been sunk in the country—chiefly in Banks, and in the petroleum and coal industries.' In joint banks, the majority of the board directors had to be Poles, and that the public was not depositing but speculating. This was unlikely to find favour with Norman, who was probably disconcerted by the news that there was an 'outcry' in the Polish press against German money filtering into the country through Austria, and that there was '[s]urprise felt that London Market knowing this lends support to Viennese Banks instead of establishing an institution of their own in Poland,' de Bilinski concluded that 'the tax collection system was faulty,' the 'whole administrative machinery bad from want of experience,' but '[g]iven stable conditions, Poland could be among the most important industrial, manufacturing and agricultural countries in Europe.' The author of the report added that the Polish government considered that a foreign loan would achieve stabilisation 'as in Austria, but forget the latter has set its house in order.'⁷⁵

In the autumn of 1923, Norman informed the Committee of Treasury of the Bank of England that it was at his suggestion that H. A. Trotter had agreed to join the Hilton Young mission to Warsaw.⁷⁶ At the end of February 1924, while acknowledging Frank Nixon's opinion that Poland was not ready for 'real reconstruction,' and that the Young Report had effectively been turned down, he was still ready, in accord with the report, to 'endeavour to find two persons competent to advise on Banking and Currency and on Railways' for Poland.⁷⁷ By the end of July, as Norman's offer was ignored and as conditions were beginning to deteriorate in Poland, the governor received a request from the Bank of Poland for the opening of an account for them at the Bank of England. Norman refused the request, as the Bank Polski had already had five accounts in London with other banks, and he would only comply if the Poles met his usual requirement 'to transact their banking business in London exclusively through the Bank of England.'⁷⁸ At the end of the year, following a letter of introduction from Stanisław Karpiński, the President of the Bank of Poland, two emissaries from the Polish central bank visited Norman. Discussions with them eased the severity of the British attitude, and shortly thereafter, emphasising that it was 'by meetings between those responsible for the policy of Central Banks that co-operation between such Banks can best be furthered', Norman encouraged Karpiński to visit the Bank of England, offering him 'to assist your Institution in any way that may be in our power.'⁷⁹

The progressive deterioration of the financial situation in Poland led to a request by Karpiński for short-term advances to the Polish bank from the Bank of England. In May 1925, the Polish banker admitted to Norman that his difficulties were due to the fact that the Bank of Poland did not possess 'reserves in the form of foreign credits' of the nature which 'were able to stabilise [the] currencies [...] of other countries.' Karpiński, '[k]nowing how much Norman [was] interested in the problem of co-operation of Central banks,' applied for a 'foreign bank advance which would be secured by our gold holdings.' At the same time, he made clear that he would be unwilling to 'export the gold and later re-ship [it] to Poland', mainly because of the 'unfavourable [...] psychological effect [...] on the broad masses of people who in the past have contributed to

gather[ing] it.' Karpiński thought it possible that reserves could be mobilised by rediscounting foreign bills held by the Bank of Poland.⁸⁰ A week later Norman told the Committee of Treasury that he agreed to make advances to the Bank of Poland against gold or foreign bills, to maintain the gold exchange standard there against seasonal fluctuations which affect the predominantly agricultural country, 'as ha[d] already been suggested in the case of Hungary and Austria.'⁸¹ Ten weeks later, the Deputy Governor, Sir Alan Anderson, told the Committee of Treasury that the advances had been agreed only 'on the security of approved Sterling Commercial Bills.'⁸²

For more than two months no-one moved in Poland to take up the offer. The pace of action changed when the Polish government invited Sir William Goode as adviser, though not specifically as a financial adviser, for a period of six months. Goode informed Norman of his appointment, which was approved by Niemeyer at the Treasury.⁸³ Goode accepted the position without 'giv[ing] up [his] advisory job with the Hungarian Government,' and he would have to go back to Budapest for short periods regularly. He stated that it was 'not likely to be generally known' that he was in Poland, as he had 'prevailed upon his journalistic friends in England, Poland, Hungary and Austria' not to reveal his appointment, because he was 'rarely invited to any country until it is at Death's door.'⁸⁴ While Goode's unexpected appearance in Warsaw was not likely to have pleased Norman,⁸⁵ in his answer, he thanked Goode for his co-operative effort, but called his attention to the fact that in 'any comparison of the cases of Poland and Hungary we must not forget that whereas the latter had married into the League's family and was thus subject to some degree of parental control, the former ha[d] a very solitary and isolated existence.'⁸⁶ Norman also expressed his doubts as to whether 'something of the truth' about Poland's financial position could be learnt without independent inquiry and control.

In accordance with the consent by Norman to giving short-term advances to Poland, the Bank Polski sent, in mid-August, 'for discount a parcel of Sterling Bills accepted by Hungarians unknown to us.' Not being satisfied with the value of these bills, Sir Alan Anderson, the Deputy Governor, referred the issue to Norman, who, having ascertained that the bills were those of a British company 'of moderate standing,' decid-

ed 'to make advances against them.'⁸⁷ In other instances of co-operation, the Bank Polski was regularly provided financial intelligence by the Bank of England on the creditworthiness of foreign companies operating in Poland or the Free City of Danzig.⁸⁸

The improved working relations opened the way to the Bank of England's involvement in a larger credit construction to the Polish state. This was further facilitated by Goode's successful argument in Warsaw for the shipment of Polish gold to London. Norman had invited Karpiński to come to London to meet him and Benjamin Strong there in early September. Goode informed Norman that Karpiński could not go. In the absence of such a visit Goode tried to persuade the Polish banker to change his mind about gold shipments to Britain. He explained to Karpiński the special arrangement that had been devised in Hungary in the autumn of 1924, whereby gold could be transferred without an actual pledge on it, which prevented the 'exportation having any bad effect upon Hungarian public opinion.'⁸⁹ Even so, Goode wrote to Norman, 'the exportation from Hungary was only effected over the literally dead body of our good friend Popovics, who fortunately came to life again... Goode believed that 'the solution of the crisis [in Poland] might also entail one or two funerals.'⁹⁰ In August, the Federal Reserve Bank of New York, secured against an equivalent amount of gold deposited at the Bank of England, granted a 10 million dollar credit to the Bank of Poland 'to be used for supporting the złoty in foreign countries.'⁹¹ A further credit of 20 million Swiss francs were also obtained.⁹²

On his return from New York, where the principal credit talks had taken place, Feliks Młynarski, Vice President of the Bank of Poland, accompanied by Alphonse Poklewski-Koziell, Commercial Counsellor of the Polish Legation in London, held several interviews with Norman, which were attended by Benjamin Strong, who also arrived from America.⁹³ In the course of their exchanges, Norman developed a better rapport with Młynarski than with Karpiński, the President of the Bank of Poland. Though the two central bankers had theoretical disagreements, Młynarski supplied Norman with uncensored information on the grave problems affecting the Polish currency and about Polish financial practices in general. Młynarski told Norman, for instance, that note circulation in Poland was so deficient that for tax payments alone, the velocity

was equal to four times the volume per year. The stabilisation of the currency gave it an artificially high domestic purchasing value. Adverse balance of payments and private lending rates ranging from 20 to 30 per cent completed the picture.⁹⁴ After their meeting, Młynarski asked Norman and Strong for a credit of 'up to £5,000,000 for two years on the security of Polish bonds/or Treasury Bills' in New York or London to support the Polish exchange. Norman told Młynarski that 'he could not grant the Bank Polski a credit except against gold and/or Foreign Bills, as stated' by him in May 1924. Młynarski 'also met refusal from Mr. Strong,'⁹⁵ though he later held out the prospect of arranging for American bankers 'to grant short credit on the security of Polish Bonds to be issued later.'⁹⁶

External confidence in Polish finances was shaken further by the failure of many Polish banks to remit to British and American banks sums received in payment of goods on consignment. A regular flight from the złoty set in and the exchange began to break again in spite of the credits obtained abroad. The złoty fell below 50 pounds sterling,⁹⁷ and it was effectively off the gold standard. Yet Grabski was still reluctant to take decisive measures to end Poland's credit isolation and link its credit system to the world financial markets, and tried once more to extricate the country from its position by additional emergency measures which only relied on internal sources. Behind the schemes of financial reconstruction inspired by the British financial establishment and adopted by the League of Nations in the case of Austria and Hungary, he saw financial provisions tied to political stipulations. In the words of Ferdynand Zweig,⁹⁸ the Poles regarded that behind 'Big Finance [in Europe] stood German propaganda,' which saw to it that unless Poland succumbed to the League of Nations scheme, it would be subjected to a 'credit boycott.'⁹⁹

Unable to break the deadly cycle, Grabski, following disagreements with Karpiński, President of the Bank Polski, resigned on 13 November 1925. Skrzyński became Prime Minister, and Jerzy Zdzichowski, a National Democrat, hitherto Chairman of the Parliamentary Budget Committee, became Minister of Finance.¹⁰⁰ Zdzichowski was known in Threadneedle Street. He had paid a visit there in July and asked for a loan. The Bank of England was not prepared to step outside the schemes set out for other countries in Central Europe, and the Polish visitor was told that 'our Loan counter was closed for the moment.'¹⁰¹

It was evident that something had to be done, and the frequent contacts between the Bank Polski and the Bank of England gave rise to far-reaching speculation in creditable German and Austrian newspapers in late 1925. The *Neue Freie Presse* claimed that

the Polish Government and the Bank of England are conducting [negotiations] with a consortium, headed by the Bank of England, with a view to taking over by English capital of the majority of the shares of the Bank of Poland. [...] The most important stipulation would be that the gold-standard be re-introduced in Poland. It would then be to the interest of the Bank of England to prevent the zloty from falling any lower.¹⁰²

Where the paper revealed that the activities of 'an English Minister and expert, a high official of the Bank of England, who had recently arrived from London' lay behind the deal, insiders understood the nature of the conjectures. The words 'Sir William Goode?' were appended to the translation. Goode was known for his many attempts which, while helpful, often amounted to no more than flying kites. Still, it was indicative of the fluid nature of the financial relations between the two countries, that even Niemeyer could not immediately ascertain the veracity of the report. He wrote to Norman: 'Have you seen this? It seems very odd, if untrue: and even odder if true!' Norman knew better, and marked the note with 'No ans.'¹⁰³ *The Financial Times* commented that 'these reports are, to say the least, grossly exaggerated. [...] The suggestion that the Bank of England might acquire a controlling interest in a foreign bank of issue speaks for itself in the particular of possibility.'¹⁰⁴ The *Frankfurter Zeitung* pointed out that any loan construction facilitated by the Bank of England in Poland 'would only be furnished on condition of Poland submitting to a control similar to that exercised over Austria.' The author added that '[i]n a speech at Posen, the State President, Wo[j]ciechowski expressed strong opposition to any such control, and stated that [in the event of any danger of such a move] he himself should endeavour to preserve the independence of Poland.'¹⁰⁵

Norman had been actively searching for a League of Nations type solution for the permanent stabilisation of Poland's finances even as the

American Professor Edwin Kemmerer stepped in with a definitive inquiry at the turn of 1925/26. This is shown by correspondence between Norman and Sir Arthur Salter, Head of the Financial Committee of the League. On 1 February 1926, Norman inquired from Salter about the chances of organising a League loan scheme. Reminding Salter that the Young-Nixon-Trotter proposals had not been implemented in Warsaw, and clearly at a loss in regard to the Polish case, Norman pleaded with his colleague in Geneva: 'I come for advice but still more for help: please give it.' In a rare political aside, the bank governor added:

Locarno should have changed the outlook of the Poles and so should the admission of Germany to the League. Poland is an important part of Europe although the Poles (having always been professional revolutionaries) seem to be a strange mixture of intense Nationalism, childish optimism and good intentions.¹⁰⁶

In his answer, Salter emphasised that '[w]e have never at any time had any application from Poland for aid in her reconstruction.'¹⁰⁷ The head of the Financial Committee assured Norman that if he or 'substantial people in New York' supported a League scheme and Poland would apply, 'the Financial Committee would take up the task with enthusiasm.' But Salter knew that the Poles, and Grabski's government in particular, considered that 'League control would hurt [Poland's] dignity as a new sovereign nation aspiring to the first rank.'¹⁰⁸

Notwithstanding the above, Salter ventured to outline his views on the desiderata for a definitive *Sanierung* of the Polish financial system. Piecemeal loans must come to an end. Salter had not been shown Professor Kemmerer's report,¹⁰⁹ but had heard that it had not recommended a League construction, and was therefore sceptical about it. Short of League control, however, Salter would still propose

- a) an external loan, partly but *not mainly* for budget deficits, but mostly as a bank reserve in support of the currency: and therefore for the most part perhaps in the form of a bank credit;
- b) a bank adviser;

- c) the cessation of the so called "token issue";
- d) affectation and control of certain revenues as security for the loan;
- e) certain undertakings [...] as to the budget...

Salter judged that while it was unlikely that the Poles could implement these measures alone, it was not possible for him to take even this limited initiative from Geneva, as any impression that the League was seeking any form of control would reduce, and not increase, the chances of an agreement. Nonetheless, he had approached the Poles through indirect channels and suggested to them that a League scheme, in their case, 'would not necessarily mean control on the full Austrian model.' External loans, without the League, 'on a useful scale' would, however, be 'impracticable.' Salter also warned that Polish reluctance was 'likely to be especially great during the next six weeks,' because 'Poland was pressing her candidature at the March [1926] meeting of the Council to be a *permanent* member of the Council,' and application for League aid in restoring her finances would prejudice her application. Salter restated that '[w]e can do nothing to stimulate [Polish] application,' but added that Alexander Loveday, the head of the intelligence division of the Financial Committee, together with his deputy, Jacobson, were, 'under great pressure' compiling further material on Poland for use by Norman.

A Treasury official added that Poland may accept a 'bank adviser [but] not necessarily budget control.' The minute further pointed out that more than anything else the Poles needed someone to advise the so-called "Monetary Department" 'of their Ministry of Finance, as the Ministry 'itself admitted (in private) that [...] the heads of the "Monetary Department" did not understand the currency and banking position [and they were] pouring out notes and coin even when [...] the banks were trying to restrict their issues.' The official concluded that 'Poland ought to be induced to accept (b) [bank adviser] and (d) [control of some revenues] of Sir Arthur Salter's points' and 'she must adopt (c) [cessation of supplementary state issue of currency] anyhow.' He doubted whether 'any part of (a) [external loan] need or ought to go to meet budget deficits' as it would simply be an encouragement 'to let economics slide.'¹¹⁰

Max Müller weighed in to persuade his hosts of the merits of inviting advisers. He told them that Poland's immense programme required the

invitation of a group of experts not from several countries, as Skrzyński was suggesting,¹¹¹ but from one source. (Max Müller admitted that the co-operation of 'British and American experts [...] might be possible.') The British Minister informed London that for reasons of Polish internal politics, any foreign expert should technically be appointed by the Polish government 'on the recommendation of the Governors of the Bank of England and the Federal Reserve Bank of New York.'¹¹² Max Müller's intervention helped to keep Norman's initiative afloat in Warsaw for a while, but did not procure its acceptance.

6.7 CENTRAL BANKERS ON GOLD, CREDIT RESERVES, AND THE NEW WORLD ECONOMY

The return of the British pound to the gold standard on 29 April 1925 was celebrated as a watershed in the post-war reconstruction of the commercial and political life of the world. It was certainly a victory for Norman, probably the most dedicated proponent of the move.¹¹³ The meaning of the policy was to put the pound back on gold at its pre-war parity with the dollar (£1 = \$4.86). From the middle of 1920, British economic and monetary policy had been subordinated to this strictly defined objective. As has been illustrated in other sections on British financial policy towards Central Europe, the loans policy, or money diplomacy, pursued by the Bank of England under Norman also served this British monetary objective. Poland was the only Central European country that adamantly and consistently resisted this money diplomacy; it was where the argument for League of Nations control schemes made only the slightest inroad into the orthodoxy of political and financial sovereignty. Successive Polish Prime Ministers, Foreign Ministers, Finance Ministers and central bankers declined co-operation for they suspected that by subscribing to the League's blueprint, they would expose themselves to German economic might and the consequent political leverage as a result of the excellent connections between the President of the German Reichsbank, Hjalmar Schacht, and Montagu Norman.

The only Polish financial expert with whom Norman had developed a rapport of sorts, Feliks Młynarski, the vice president of the Bank Pol-

ski, a former Ministry of Finance official who had worked on currency reform in 1924, disagreed with Norman on an even more substantial subject than the necessity or otherwise of a League of Nations package for Poland, and this was the question of the value of the gold standard in the 1920s.¹¹⁴ Prompted by Norman's earlier question 'whether the currency reform in Poland will last,' the Polish banker prepared a polemic examining the wider implications of the problem. He also used the occasion to enclose a synoptic translation of his work titled *Powrót Anglii do waluty złotej* (England's return to par), in which he set out for Norman in a subtle, non-adversarial, manner, some of his dissenting views.

Młynarski sent his study and the accompanying letter to Norman two months after the pound's return to gold. The letter linked the questions of currency reform, stabilisation by loans, and the nature of the gold standard in the new era. In a passage encircled and partly underlined by its reader,¹¹⁵ Młynarski argued that '*as long as Europe remains in a state of economic disintegration and has to bear the supremacy of the redundant goldholdings of the United States, no stabilisation can be permanent.*'¹¹⁶ While the statement could be interpreted to include the stabilisation of the pound, Germany was chosen by the author as a better example to illustrate American influence. 'The trade balance of Germany, from the 1-st of October, 1924, to the 30th of April, 1925,' Młynarski wrote, 'discloses a deficit of 3119 million marks. If the influx of foreign credit should be stopped,' he asked, 'could the stabilisation be considered to be a permanent one?' While expressing lack of confidence in existing European solutions even after the pound's return to par, Młynarski's intention was to search for a mechanism more favourable for European recovery. One encircled paragraph proposed 'that the future of the złoty, as the future of other European currencies, will also [be] dependent upon whether Europe will know how to organize economically and to free herself from the supremacy of American goldreserves.' Młynarski concluded in his letter that the European anomaly could only be overcome by co-operation '*in a larger degree than up till now.*'¹¹⁷

Młynarski's enclosed pamphlet opens with a Normanesque appreciation of Britain's return to gold. Quoting the U.S. Federal Reserve Council's recent statement that America's help in returning the pound to par is 'one of the most constructive acts of the Federal Reserve,' Mły-

narski called attention to the fact that further American assistance to Britain or other European countries may still be necessary. In his view, '[t]his proves that [Norman's] idea of an international co-operation by the help of reserve credits opened for central banks is not [only] a vision.' The gist of the Polish central banker's main argument is contained in the following passage:

[T]he fact that the question of reserve credits has not only a transitory significance as a short-termed help for intervention purposes but may also become a *starting point for regulating the question of gold value by neutralising the superabundant American stocks*. The value of gold depends at present not only, as before 1914, on the productiveness of the mines but also on the way America uses her stocks. Hence it is not sufficient to create a 'centre of balance'¹¹⁸ such as the restoration of par between the pound and the dollar. It is necessary also to approach the solution of the gold question i.e. *the neutralization of the role played by American gold...*¹¹⁹

Młynarski proposed that the neutralisation of American gold could be achieved either by creating 'an international finance institution in which the United States would have a prominent majority of shares in gold, an institution appointed to regulate the supply and demand of gold and to assist the [various] banks of issue by granting credits for stabilising purposes,' or by 'America's opening large and systematic long-term reserve credits for those states, i.e. central banks, that have a stabilised currency and need only exchange reserve credits for maintaining their position on the world market.' By either of these measures, a regulation of the balance of payments between Europe and America, and the gradual leveling of the redundant holdings of gold on the other side of the Atlantic, a kind of 'gold bridge,' could be constructed. Another argument cited in favour of such American involvement was the recent report published by the Bradbury Committee in Britain which advised against credit issued by the Bank of England, and termed its possible use, as long as the credit is not paid for, 'as equivalent to a corresponding loss from one's own reserves.' With an eye on his own constituency, Młynarski also emphasised that the maintenance of the rate by foreign credit ought not to

blind anyone to the fact that the balance is bad. Credits without restored balances are only a delaying tactic.

The result of Młynarski's suggested policy, which, admittedly, would not be easy for America to agree to, would be that 'Europe will be insured against American deflation, America at the same time against European inflation,' with the added benefit that Europe would be able to liquidate its American debt obligations. Until this mechanism, according to the author's argument, had restored the automatic reaction of the gold standard, 'notwithstanding the return of the pound to par the world possesses[d] no automatic regulator.' Individual countries may have a gold standard, but there is no world regulator that 'as before 1914, would automatically and quickly level separate price standards to the standard of world prices.' Instead, countries, including the United States, resort to internationally harmful tariffs. If the U.S. does not buy from Europe, and, in addition, 'eagerly continues to gather up European gold,' with what then would Europe pay its debts? Such state of affairs, Młynarski maintained, could not continue without Europe being deprived of its gold holdings and of its best bonds, while its industry fell more and more into the American sphere. Prices, rates, costs of production and profit margins would soon all be dictated from the United States. This, in Młynarski's opinion, would lead to the 'economic balkanization of Europe,' and '[t]hat is not the way to fix the stabilisation of the pound and other currencies on the level of par to the dollar. Soon[er] or later the dollar will outbalance the lever and the rates of European currencies, not excluding the pound, will get loose.'

In one of his central arguments, Młynarski emphasised that American purchasing power had, so far, by way of 'excessive onesidedness,' only been introduced into Europe in the form of credits to Germany, which had been 'flooded with easy credit' in which the 'Dawes loan was only a drop.' The use by Młynarski of a pro-European argument which is weighted against the Anglo-American credit policy towards Germany was calculated to exert maximum pressure on Norman whose plans for Europe hinged on the success of German reconstruction. Młynarski pointed out that while stocks of gold increased in the German Reichsbank, the trade balance of Germany continued to show a catastrophic deficit. Appealing for a more even-handed approach, the Polish banker

claimed that '[i]f the purchasing power of other countries is not raised, Germany *will find no buyers* [and] it is not the interest of England and America to be the chief fields for German export.' Borrowed capital, used for feverish imports, instead of spreading to Germany's neighbours, 'violently flows away from Germany back to its source.' The emancipation of the pound, Młynarski advised Norman, demanded a wider spread of American credits for Europe. In an ambitious statement, the Polish banker declared that it was not enough to fear American deflation; Europe must protect itself from it by 'the consumption of American gold for reserve credits in such dimensions that the sum of these credits should surpass the yearly net income of the United States.' Hence, Młynarski concluded, 'the future of the pound depends in greater measure on whether and when England will take on herself the part of mediator between Europe and America so as to push the stream of American gold and direct it equally to the veins of states suffering from monetary anaemia.' Norman was reminded by Młynarski that the Genoa Conference had consigned to the Bank of England a mandate to organise the co-operation of banks of issue. Undertaking the role of mediator would be the best way of discharging this task. Rather than predicating that policy on 'an intoxicant', such as the example of the policy towards Germany, 'England would be able to maintain the stabilisation of European currencies' in a reliable manner which would, in turn, 'strengthen also the new position of the pound.'¹²⁰

Młynarski was not the only financial expert to voice doubts about the monetary solutions applied in Europe. He was also freer to criticise Norman and his system than others, such as his Hungarian counterparts, who had joined Norman's consortium by undertaking the League's reconstruction project. Still, the merits of the Polish banker's assessment lay in its precociousness, the fact that it emanated from a partisan source without being entirely eclipsed by the interests of Poland, and that he addressed it to the most potent arbiter of these matters in the world. He also tackled one of the most disturbing self-contradictions in Norman's loan policy, that of dependent exposure, and simultaneous opposition, to the dollar. At the same time, the inherent incongruity in Młynarski's own argument was that while demanding a more even-handed credit policy, he did not advocate Polish consent to concomitant outside control.

When compared with similar warnings by Norman's arch-critic, J. M. Keynes, who, in his *Tract on Monetary Reform*, cautioned that the gold standard did not provide sufficient price stability,¹²¹ and argued elsewhere that it was not the return to par that was the real problem but that without the retention of the licensing of gold imports from America Britain would continue to be subject to the whims of the dollar,¹²² Młynarski's arguments prove equally durable. His contention that '[s]oon[er] or later the dollar will outbalance the lever and [...] the pound will get loose,' is virtually identical to Keynes's retrospective judgement that by returning to gold at an unsuitable parity, the Bank of England 'set itself a problem of adjustment so difficult as to have been well-nigh impossible,' and that '[s]ooner or later, for good reasons or for bad, some loss of confidence might arise; and then [...] the insecure structure had to tumble.'¹²³ The Polish banker also recognised that the trade and finance of the world had to become more porous as a result of the new conditions, and unless the British and American bankers adjusted their practice to this requirement, Europe would suffer. The explicit criticism of America, however, also hid Młynarski's implicit acknowledgement of its potential to replace Britain as an organiser of state reconstruction loans, and thus foreshadowed the America-only solution for which Poland opted in 1926–27.

The chances of successful co-operation between the Polish government and the Bank Polski on the one hand and the Federal Reserve Bank of New York on the other improved dramatically following the appointment, in late 1925, of Count Skrzyński as Polish Prime Minister and Foreign Minister, Jerzy Zdziechowski as Minister of Finance, and Jan Ciechanowski as Polish Minister in Washington, in late 1925, who all favoured closer ties with the United States. Following two missions to Poland led by Professor Edwin Kemmerer of Princeton University on behalf of the Dillon, Read banking house between 30 December 1925 and 11 January 1926 and from 3 July to 17 September 1926, the American position, which did not envisage League control, strengthened.¹²⁴ Marshal Piłsudski's *Sanacja* policy, introduced after his coup on 12 May 1926, provided a stable, if non-democratic, political background to the negotiations. At the end of 1926, Młynarski declared that 'a foreign loan headed by England is politically undesirable.'¹²⁵ Jean Monnet, the Paris agent of the American Blair and Co., invited Émile Moreau, Governor of the Banque de

France, whose views on foreign loan diplomacy were irreconcilable with Norman's, into the planned construction. The scheme, which envisaged a purely central bank operation, spearheaded by the Federal Reserve, received the blessing of the Coolidge administration.¹²⁶ Reluctantly, after tortuous wrangling, Norman also agreed to participate. Cecil Lubbock, the Deputy Governor of the Bank of England, signed a credit agreement, in the summer of 1927.¹²⁷ The scheme, in its final version, reached on 13 October 1927, provided a loan of 62 million U.S. dollars at 7 per cent interest, repayable in 1947. Fourteen European central banks participated, including the National Bank of Czechoslovakia and the National Bank of Hungary. Britain participated with a 2 million pound principal amount.¹²⁸ Separate but related sterling bonds were issued in London, placed through Lazard Brothers, for another 2 million pounds, raising the total transaction to 71.7 million dollars.¹²⁹ About two thirds of the sum was set aside for strengthening the zloty, one third could be used for investments. The zloty adopted a gold exchange standard with parity fixed at 11.22 U.S. cents, which remained stable until the German invasion of Poland in 1939.¹³⁰ Throughout the negotiations, the Americans, Poles and the French persisted in opposing Norman's proposals. In the midst of the jockeying to organise Polish reconstruction, a dejected Norman contemplated that 'the older countries of Europe base their opinions on history [...] the Americans are pragmatic and judge solely from the present. [...] his difference of opinion is not casual but fundamental: not temporary but lasting: a difference in philosophic outlook.'¹³¹

NOTES

- 1 For instance, Galicia had eight railway links with Austria but only two with the Kingdom of Poland. (Zbigniew Landau, 'The Economic Integration of Poland 1918–23' in Paul Latawski ed, *The Reconstruction of Poland, 1914–23* [London: Macmillan, 1992], p. 145.)
- 2 Norman Stone, *The Eastern Front 1914–1917* (London: Penguin, 1975 (1998), pp. 165–93.
- 3 E. Taylor, 'Skarbowosc', in *Bilans gospodarczy dziesięciolecia Polski Odrodzonej*, vol. II, (Poznań, 1929), pp. 262–68, quoted in Landau, *The Economic Integration...*, p. 145; Ferdynand Zweig, *Poland Between Two Wars, A Critical Study of Social and Economic Changes* (London: Secker & Warburg, 1944), p. 32.

- 4 Landau, *The Economic Integration...*, p. 149.
- 5 M. Tulacz, 'Rozwój administracji skarbowej i finansów województwa śląskiego', in *Województwo śląskie 1918–1928* (Katowice, 1928), pp. 205–36, quoted in Landau, *The Economic Integration...*, p. 149.
- 6 Landau, *The Economic Integration...*, p. 151.
- 7 Landau, *The Economic Integration...*, p. 152.
- 8 J. Zdziechowski, *Finanse Polski w latach 1924 i 1925* (Warsaw, 1925), pp. 13–15, quoted in Landau, *The Economic Integration...*, p. 152.
- 9 Z. Landau and J. Tomaszewski, *W dobie inflacji 1918–1923* (Warsaw, 1967), p. 206, in Landau, *The Economic Integration...*, p. 155.
- 10 Zweig, *Poland Between...*, p. 36.
- 11 Memorandum by J. D. Gregory, 2 December 1922, FO 371/8144/N10808/7027/55.
- 12 Annual Report on Poland for 1921, Max Müller to Curzon, 23 December 1922, FO 371/9312/N30/30/55.
- 13 Edward Hilton Young, first Baron Kennet (1879–1960). Liberal and later (after 1926) Conservative MP, a lawyer as well as an economist by training who had a prominent role in working out economic rationalisation programmes in Lloyd George's cabinet. Financial Secretary to the Treasury, 1921, Minister of Health, 1931–35.
- 14 Gregory's memorandum, FO 371/8144/N10808/7027/55.
- 15 *Loc. cit.*
- 16 For biographical details see note no. 26 in section (I) 2.2.
- 17 British Chancellor of the Exchequer, 1921–1922.
- 18 Hoare to O'Malley, 11 August 1922, FO 371/8144/N7486/7486/55.
- 19 Max Müller to Gregory, 2 November 1922, FO 371/8144/N9983/7027/55.
- 20 Max Müller to Gregory, 7 November 1922, FO 371/8144/N10167/7072/55.
- 21 Blackett to Tyrrell, 19 July 1922, FO 371/8144/N7027/7027/55.
- 22 Young to Gregory, 24 November 1922, FO 371/8144/N10514/7027/55.
- 23 (Sigismund) David Waley (1887–1962, from 1943: Sir David Waley). At the Treasury from 1910. Assistant Secretary at the Treasury, 1924.
- 24 Sir Frederick W. Leith-Ross (1887–1968). At the Treasury in 1909. British member of the Finance Board of the Reparation Commission, 1920–25, Deputy Controller of Finance at the Treasury, 1925 to 1932. Worked on currency reform in China in 1935. Chief Economic Adviser to the British government, 1932–46.
- 25 For biographical details see note no. 11 in section (I) 2.1.
- 26 Young to Gregory, 24 November 1922, FO 371/8144/N10514/7027/55.
- 27 Memorandum by Gregory, 2 December 1922, FO 371/8144/N10808/7027/55.
- 28 Young to Gregory, 9 December 1922; Gregory to Max Müller, 23 December 1922, FO 371/8144/N10931/7027/55.
- 29 Gregory to Max Müller, 11 December 1922, *loc. cit.*
- 30 Gregory to Max Müller, 23 December 1922, *loc. cit.* Max Müller had earlier mildly rebuked his London superiors for falsely raising the expectations of Lady

Hilton Young, who had inquired whether 'Warsaw was a nice place to spend Christmas.' All Max Müller had suggested was that London should 'Tâter le terrain with Hilton Young.' (Max Müller to Gregory, 14 December 1922, FO 371/8144/N10931/7027/55.)

- 31 Max Müller to Gregory, 14 December 1922, FO 371/8144/N10931/7027/55.
- 32 Annual Report on Poland for 1923, Max Müller to Curzon, 1 July 1924, FO 371/10461/N5630/5630/55.
- 33 Reginald Leeper to Lampson, 27 July 1923, FO 371/9311/N678/29/55.
- 34 Sir Frank Horsfall Nixon. Appointed to the Treasury, 1912. Acting director (replacing Sir Arthur Salter) of the Financial Committee of the League of Nations, 1920–22. Commissioner of the Austrian government for floating the Austrian League reconstruction loan in 1923. Back at the Treasury from 1923. Temporarily in charge of the mission of financial inquiry in Poland, 1923–24. Controller-general of the Exports Credits Guarantee Department of the Treasury, 1926.
- 35 Exceptionally, instead of the customary two years, Trotter had been Deputy Governor for three years from April 1920 to April 1923. He would be reappointed Deputy Governor 1926–27. (Clay, *Lord Norman*, p. 189n.)
- 36 This confirmed what Albert Janssen, Belgian Minister of Finance, and a member of the Financial Committee of the League of Nations, had earlier told Kucharski. (Max Müller to Curzon, 3 October 1923, FO 371/9311/N8024/29/55.)
- 37 *The Manchester Guardian*, 1 October 1923.
- 38 Max Müller to Curzon, 3 October 1923, FO 371/9311/N8024/29/55.
- 39 Max Müller to Curzon, 1 July 1924, FO 371/10461/N5630/5630/55.
- 40 Max Müller to Curzon, 3 October 1923, FO 371/9311/N8024/29/55.
- 41 *Loc. cit.*
- 42 Zweig, *Poland Between...*, p. 39; Adam Krzyzanowski, *Pauperization of Contemporary Poland* (Warsaw, 1925) Adam Krzyzanowski, 'L'historique des négociations pour l'emprunt étranger' Warsaw, [n.d.], pp. 8–11, BoE OV110/1.
- 43 Zweig, *Poland Between...*, p. 39.
- 44 Annual Report on Poland for 1924, Max Müller to Chamberlain, 16 October 1925, FO 371/11005/N5966/5437/55.
- 45 *Loc. cit.*
- 46 Max Müller to Chamberlain, 16 October 1925, FO 371/11005/N5966/5437/55.
- 47 Nixon to Young, 24 December 1923, T 160/174/F6755/1.
- 48 Report by Hilton Young, p. 3, BoE OV110/1. (Also published in London through the Polish Legation under the title *Report on Financial Conditions in Poland: Presented to the Prime Minister of Poland by the Right Honourable E. Hilton Young on February 10th, 1924.*
- 49 *Loc. cit.*, p. 8.
- 50 *The Morning Post*, 19 December 1923.
- 51 *Loc. cit.*, p. 12.
- 52 On the 'liberation debt', see further section (II) 4.5.

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- 53 *Loc. cit.*, p. 48.
- 54 *Loc. cit.*, pp. 61–62.
- 55 *Loc. cit.*, p. 64.
- 56 *Loc. cit.*, p. 60.
- 57 Max Müller to Chamberlain, 16 October 1925, FO 371/11005/N5966/5437/55.
- 58 *Loc. cit.*, p. 45.
- 59 Max Müller to Chamberlain, 16 October 1925, FO 371/11005/N5966/5437/55.
- 60 Lester V. Chandler, *Benjamin Strong, Central Banker* (The Brookings Institution, Washington D.C., 1958), p. 390.
- 61 The gold (pre-war) franc was chosen as the unit for the valorisation, the coefficient for which was fixed every day by the Ministry of Finance and corresponded approximately to the rate of exchange between the Swiss franc and the mark. On 2 January the rate of exchange was 1,200,000, and after rising to 1,920,000 on 28 January, it fell to 1,800,000 on 7 February and remained so until the date of the introduction of the new currency, when that rate was accepted as the permanent rate for conversion.
- 62 Max Müller to Chamberlain, 16 October 1925, FO 371/11005/N5966/5437/55.
- 63 Minutes of a meeting between Norman and Feliks Młynarski, Vice President of the Bank of Poland, 31 August 1925, BoE OV110/21.
- 64 Max Müller to Chamberlain, 16 October 1925, FO 371/11005/N5966/5437/55.
- 65 *Loc. cit.*
- 66 Allowance was given to the fact that there was bound to be more evasion than compliance with tax obligations.
- 67 Of this figure £5,513,123 were internal debt, £864,459 advances by the Bank of Poland, and £69,024,666 external debt. The sum excluded long and short-term loans and a premium loan contracted in 1920, though this indebtedness was considered to be funded. (FO 371/11005/N5966/5437/55, p. 46.)
- 68 Max Müller to Chamberlain, 16 October 1925, FO 371/11005/N5966/5437/55.
- 69 Material for the report was only supplied to the Bank of England as late as 31 August 1925 by Feliks Młynarski, vice president of the Bank Polski.
- 70 Confidential BoE memorandum on the Bank of Poland, BoE OV110/21.
- 71 Underlined in the original.
- 72 *Loc. cit.* The words ‘Austrian’ and ‘Hungarian’ were underlined, and the words ‘(and League control)’ were added, in Norman’s hand.
- 73 Max Müller to Chamberlain, 16 October 1925, FO 371/11005/N5966/5437/55; Max Müller to Chamberlain, 16 October 1926, FO 371/11774/N4788/4788/55.
- 74 Report by S. de Bilinski, C.B.E., 15 September 1923, BoE OV110/21.
- 75 That Norman agreed with the sentiments expressed in the report is shown by an earlier diary entry on Polish bank debts, where he noted: ‘I do not object to cash advance to start them up again [...] to repay pre & post-war [bank] debts – I do object to Blank renewable acct. credit for same purpose.’ (2 May 1923, BoE ADM 34/12.)

- 76 Minutes of the Committee of Treasury, 10 October 1923, BoE G14/259.
- 77 Minutes of the Committee of Treasury, 27 February 1924, BoE G14/259.
- 78 Minutes of the Committee of Treasury, 23 July 1924, BoE G14/259.
- 79 Norman to Karpiński, 10 December 1924, BoE G3/181.
- 80 Karpiński to Norman, 20 May 1925, BoE G14/259.
- 81 Minutes of the Committee of Treasury, 27 May 1925, BoE G14/259.
- 82 BoE G14/259.
- 83 'You may possibly have heard from Niemeyer,' Goode wrote to Norman, 'if he were gossiping.' (Goode to Norman, 22 August 1925, BoE OV110/21.)
- 84 Goode to Norman, 22 August 1925, BoE OV110/21.
- 85 In October 1926, Dudley Ward, a British banker working in Poland 'expressed anxiety about the possibility of [...] connection between Sir William Goode and Poland.' (Memorandum prepared for Norman, 6 October 1926, BoE OV110/1.)
- 86 Norman to Goode, 31 August 1925, BoE OV110/21.
- 87 Minutes of the Committee of Treasury, 12 and 19 August 1925, BoE G14/259.
- 88 E.g. B. G. Catterns [Deputy Chief Cashier] to Bank of Poland, 31 August 1925, BoE OV110/21.
- 89 See section (I) 2.3.11.
- 90 Goode to Norman, 22 August 1925, BoE OV110/21.
- 91 *Frankfurter Zeitung*, 16 September 1925, translated by the Intelligence Department of the Bank of England, BoE OV110/22.
- 92 Max Müller to Chamberlain, 16 October 1926, FO 371/11774/N4788/4788/55.
- 93 Norman to Goode, 31 August 1925, BoE OV110/21.
- 94 Minutes of a meeting between Norman and Młynarski, 1 September 1925, BoE OV110/21. Two days later Norman also received a copy of a report filed on details of the depreciation of the złoty by Richard Kimens, the British Commercial Secretary at Warsaw, to the Development and Intelligence section of the Department of Overseas Trade. (Kimens to D.O.T., 3 September 1925, BoE OV110/22)
- 95 Minutes of the Committee of Treasury, 2 September 1925, BoE G14/259.
- 96 Minutes of the Committee of Treasury, 9 September 1925, BoE G14/259.
- 97 Max Müller to Chamberlain, 16 October 1926, FO 371/11774/N4788/4788/55.
- 98 Zweig worked at the Central Statistical Office of Poland in the 1920s and, then became professor of Political Economy at the University of Cracow. Following the outbreak of the Second World War, he escaped to Britain where he acted as economic adviser to General Sikorski. His *Four Systems of Economics: Universalism, Nationalism, Liberalism, Socialism* was translated into German in 1932.
- 99 Zweig, *Poland Between...*, p. 50.
- 100 Before he made his request, the Polish committee chairman had asked to meet Norman. Instead of an interview with the governor, he had to make do with a meeting with the Deputy Governor and the Comptroller. Critical of the management of Polish finances, Zdziechowski told Anderson and Harvey that 'the

- return to the Gold Standard after a period of inflation must hurt balance of trade,' and that Poland could only balance their budget for the first five months of 1925. (Interview with Zdziechowski, 21 July 1925, BoE OV110/21.)
- 101 Zdziechowski was back in London as Minister of Finance, and held discussions at the Treasury and the Bank of England from 22 to 26 February 1926. Following a long conversation with him, Niemeyer remarked: 'He is, in my opinion, the strongest Minister of Finance who has yet appeared in Poland.' (T/176/23)
- 102 *Neue Freie Presse*, 30 September 1925, translated by the Intelligence Department of the Bank of England, BoE OV110/22.
- 103 Niemeyer to Norman, 2 October 1925, BoE OV110/22.
- 104 *The Financial Times*, 3 October 1925.
- 105 *Frankfurter Zeitung*, 16 September 1925, translated by the Intelligence Department of the Bank of England, BoE OV110/22.
- 106 Norman to Salter, 5 February 1926, BoE OV110/23; Niemeyer Papers, T 176/23. Norman also cabled to the League commissioner copies of correspondence on the subject between himself and Seward Prosser of the Bankers Trust Company of New York. There was acute rivalry between the Bankers Trust, favoured by Norman, and another U.S. lending house called 'Dillon, Read', favoured by the American central bankers, to obtain rights to underwrite a large reconstruction loan for Poland. (Neal Pease, *Poland, the United States and the Stabilisation of Europe, 1919–1933* [New York: Oxford University Press, 1986], pp. 59–88.)
- 107 Salter to Norman, 5 February 1926, Niemeyer Papers, T 176/23; BoE OV110/23.
- 108 It was known in Geneva that 'Grabski [had] followed very closely the lessons of the Austrian experience,' and Warsaw had 'from time to time [...] sounded [the League] unofficially' as to lessons that could be applied for their case. Hopes had been raised briefly in February 1925, when it was thought that a visit by Joseph Avenol, the Deputy of the Secretary General of the League, would mark the beginning of collaboration, but the League had received 'no official "locus standi" and no suggestion that we shall be given one.'
- 109 Reference to the first and shorter of two reports submitted by Professor Kemmerer in the course of 1926.
- 110 Norman to Salter, 5 February 1926, BoE OV110/23; Niemeyer Papers, T 176/23, Treasury notes, 2 October 1926. The Salter–Norman exchanges are summed up in Orde, *British Policy...*, p. 305.
- 111 Max Müller to Chamberlain, 19 January 1926, BoE OV110/23.
- 112 Max Müller to Chamberlain, 19 January 1926, FO 371/11760/N338/41/55. (Also in BoE OV110/23.)
- 113 The political intention had first been officially declared in the Cunliffe Report of 1919, as ratified by the Gold and Silver Embargo Act of 1920, before Norman became Governor of the Bank of England.
- 114 Młynarski was an accomplished author of economic treatises. One of his best known works in Poland was *Economic Proportionalism*, in which he elaborated a

- theory of distinction between quantitative and qualitative economic phenomena. (Zweig, *Poland Between...*, p. 164.) His *Wspomnienia* (Warsaw, 1971) is a singular account of Polish financial diplomacy in 1925–27. (Neal Pease, *Poland, the United States...*, p. 225).
- 115 As no response to either Młynarski's letter or his pamphlet can be traced, the only indication of Norman's attitude to the arguments contained in them are the markings on the manuscript.
- 116 Młynarski to Norman, 1 July 1925, BoE OV110/21, underlining in the original.
- 117 Underlining in the original.
- 118 Reference in the original: 'Expression of [Gustav] Cassel in *Money and Foreign Exchange* [after 1914], London, 1923 [sic, 1922].' The precise expression used by Cassel was 'centre of stability', Cassel, *Money and...*, p. 260.
- 119 'World Question of Gold in Connection with England's Return to Par' (An abstract from the booklet *England's Return to Par* by Feliks Młynarski, PhD), pp. 3–4, BoE OV110/21, italics in the original.
- 120 Młynarski, *World Question of Gold...*, pp. 1–15.
- 121 Quoted in Skidelski, *John Maynard Keynes, The Economist as Saviour 1920–1937* (London: Macmillan, 1992), p. 188.
- 122 *Collected writings of John Maynard Keynes* vol. XIX, pp. 239–61, in Skidelski, *John Maynard Keynes*, p. 193; John Maynard Keynes, 'The Stabilisation of the European Exchanges, A Suggestion for the Genoa Conference', *The Manchester Guardian Commercial* 4 (6 April 1922): pp. 461–62.
- 123 *Lloyds Bank Monthly Review*, April 1932, quoted in Skidelski, *John Maynard Keynes*, p. 397.
- 124 Reports of the Kemmerer Commission, parts 1–13, BoE OV110/1.
- 125 19 December 1926, BoE OV110/1.
- 126 Pease, *Poland, the United States...*, p. 90.
- 127 Minutes of the Committee of Treasury, 13 July 1927, BoE G14/259.
- 128 'Republic of Poland Stabilization Loan, 1927, Seven Per Cent External Sinking Fund Gold Bonds', BoE OV 110/1.
- 129 'Republic of Poland Stabilisation Loan, 1927', BoE OV 110/1.
- 130 Chandler, *Benjamin Strong*, pp. 401–402.
- 131 'Note by the Governor', March 1927, BoE G14/259.

CONCLUSION

Contrary to the common perception, the British were instrumental partners in setting up the post-war system in Central Europe both during the Peace Conference and thereafter. Nonetheless, their influence was not evenly exerted. They sent one of their most qualified diplomats, Sir George Clerk on two missions, which left an indelible mark on the character of the Hungarian state. The second mission was specifically dispatched to enable Hungary to begin its independent life in the new Europe without further guarantees of British commitment. It is indicative of these early intentions that the able Clerk was appointed as Minister to Prague, the less celebrated Sir Thomas Hohler was dispatched as head of mission to Hungary, and Sir Horace Rumbold, who had been admittedly sceptical about Poland, was posted to Warsaw.

Within two years, however, the balance between Hungary and Czechoslovakia began to alter. The British relationship with Hungary started to improve following the signature of the Treaty of Trianon. A defeated, disgruntled country, thirsty for changes in the peace settlement, Hungary would have done anything to please any Western power to gain understanding for its paramount revisionist aims. This was proved by the unrealistic and short love affair with France under the Millebrand-Paléologue group. During this Franco-Hungarian rapprochement, an unseemly turf war was fought between the British and the French for commercial concessions in Hungary. When a new French administration came to office which was less sympathetic to Hungary and French commercial ambitions faded, the Hungarians turned to the British for Great Power patronage. The Foreign Office did not resist this, even though British interest in Hungary was almost exclusively economic. While the Foreign Office never even came near to embracing Hungarian revision-

ism, their sense of guilt over the Treaty of Trianon favoured the Hungarians. This was clearly shown during the Karlist coup attempts, when British diplomacy played a considerable role in preventing the stand-off between Hungary and the Little Entente from turning into armed conflict.

By contrast, Czechoslovakia, which had been termed by the British as the 'pivot' of Central Europe, in spite of the strenuous efforts of Clerk and Robert Bruce Lockhart, the British Commercial Commissioner in Prague, could not fulfil its allotted function. Whereas the French could realise their hopes of trading with Czechoslovakia, the British found that Czechoslovakia was a major exporter of goods that Britain did not want to buy, or which the British themselves wished to sell in third countries. The Foreign Office began to realise that Czechoslovak diplomacy, in the hands of the highly strung Beneš, proved to be more incalculable and ambitious than they had expected. Politically, the British were no match for the French who repeatedly dallied with the idea of an integral military alliance with Czechoslovakia as well as with Poland. While fiercely jealous of the French, the British, when challenged, could offer nothing comparable.

Common interests and geography should have drawn Poland close to its Central European neighbours. This, however, proved particularly difficult in the immediate aftermath of the reunification of the former German, Russian and Austrian parts of the divided country. The fact that the British managed Polish affairs from a separate department from the rest of Central Europe did not help this reintegration, but, at the same time, reflected the realities on the ground. While in Prague and Budapest the years 1920–21 marked the beginnings of peaceful diplomatic, commercial and financial contacts with Britain, this proved impossible in the still war-torn Poland. The uncompromising nationalism of the Polish leaders, both on the left and on the right, met with little sympathy, and even provoked disdain, on both the left and right of the British political spectrum. While desiring good relations with Britain, the Poles were resentful of the British intention to confine Poland within narrowly defined ethnic boundaries. In their indignation, the Poles reserved special dislike for Lloyd George, the British Prime Minister. This may have been unfair. What appeared to be anti-Polish behaviour could have been an example of Lloyd George's well-known political opportunism. Des-

cribed as a 'tactical revisionist,' Lloyd George was 'prepared to loosen the screws a bit' on Germany's eastern borders,¹ and he was, from the start, alive to the importance of bringing the Russians into the peace settlement in the interest of the whole of Europe. These general political objectives, followed broadly by successive British administrations after the war, did not favour the victorious successor states, least of all Poland. It is questionable whether the British would have recognised the Polish frontiers, which they finally did in 1923, without their growing dislike of Bolshevik Russia. The British were never comfortable with the Polish-German border, not even James Headlam-Morley, the historical adviser of the Foreign Office, who was otherwise a strong supporter of the status quo.

While the French, in their desire to find a new eastern counterbalance to Germany, were much more sympathetic to Poland, the referendum in Upper Silesia was a forceful reminder of France's dependence on British support. This ambivalence could be seen in French foreign policy throughout Central Europe in the early twenties. The region fell into the French sphere of interest, but the extent to which these interests could be defended was subject to British co-operation. The Polish, and to a lesser extent, the Czechoslovak, question thus also formed part of the Anglo-French difference over the treatment of Weimar Germany. The differing degrees to which each was prepared to assist the Poles and the Czechs, reflected the difference between the British desire to see a viable Germany and the French ambition to contain its old enemy. Together with the stagnating commerce between Britain and Poland, hardly anything, certainly not polite rhetoric, could save Anglo-Polish relations from critical disagreements and from the alienation which had occurred by the time of Locarno. Detractors of Locarno have looked upon the treaty as a prelude to the Munich Agreement in 1938. This is an unjustified projection of the future into the past. Nonetheless, the unqualified celebration of Locarno as the fruit of the art of the possible leaves out of consideration the bitter disappointment of the Poles and the Czechs at their formal demotion to second class membership in the European family.

Turning to financial relations, the domain where British influence could really be felt, a similar, but even sharper, contrast emerges from comparing British activities in regard to Hungary on the one hand, and Czechoslovakia and Poland on the other hand. The present study under-

lines the autonomous clout of British financial policy, which has rarely been recognised by earlier authors. Montagu Norman, the Governor of the Bank of England, had a vision of quality and intensity that went far beyond that of the Foreign Office. In part, this vision was British-oriented, i.e. to extend British power and influence to the new countries of Europe and to ease and hasten Britain's reaccession to the gold standard. Yet it also stemmed from Norman's desire to resuscitate the economic and financial unity of the Danubian lands, which had been destroyed at the Peace Conference table. Norman's chosen instrument was the Financial Committee of the League of Nations, which was dominated by British financial experts, many of whom had official connections with the British Treasury and the Bank of England. Although Norman insisted that the stabilisation loans were non-political, his policy can hardly be described as politically neutral. In the Hungarian case, the loan scheme helped to strengthen the Horthy government, while, in Czechoslovakia, Norman's interventions intentionally affected the politics of the country when Beneš temporarily fell out with the Anglo-Czechoslovak Bank.

The failure at Porto Rosa in October-November 1921 of the Italian initiative to restrain the drive towards autarky demonstrated the strength of the Polish and Czechoslovak opposition to the British-sponsored action, which they understood to have carried a political price tag. Likewise, at Genoa, Czechoslovakia and Poland were not impressed by the British-inspired plans to stabilise their currencies, balance their budgets, reduce their military spending, raise their taxes and make them buy more goods from the West and from Germany. As a result, British bankers and agents of stabilisation schemes found themselves more at ease in Berlin, Vienna and Budapest than in Warsaw or Prague. The Yugoslavs and the Romanians were turned down in London in early 1922 when they applied for loans on their own terms, which excluded British or British-backed League of Nations supervision. While the Czechs received a much needed loan, they found the negotiations and the terms painful.

Norman and his associates believed that runaway inflation, the main economic bogey of the post-war world, was closely associated with the disappearance of the gold standard. Their crusade to impose schemes of monetary stabilisation on countries with debased currencies found willing partners in Hungary, partly for political reasons, as most Hungarian

politicians were glad to be associated with a powerful Western patron and those who were not judged that they could not, at least for the time being, afford the exclusive patriotic pride manifested by the Poles, and partly because Hungary had no economic assets comparable to those of Czechoslovakia. It is arguable that if Hungary had not been in an exposed and vulnerable position after the war, its government would not have accepted the extraordinary conditions of Norman's scheme. Once stabilised, the Hungarians decoupled the *pengő* from the pound-based system which Norman had wanted. Thus, even in the case of Hungary, only part of Norman's plans could be realised. The League scheme did help Hungary, at a cost, but it is more debatable whether it resulted in durable benefits for Britain.

Czechoslovakia inherited the best industrial, commercial and infrastructural legacy of the Austro-Hungarian lands. There was no need for foreign supervision in the overhaul of its financial system. Its own leaders and experts worked out, in many respects, pioneered, schemes, for which they needed foreign loans, but only for limited, targeted purposes. British financiers made quick headway in converting debts owed to the Bank of England from the pre-war period by the Anglo-Austrian Bank into financial, and ultimately, political advantage to themselves. The Anglo-Czechoslovak Bank was a flagship of British influence in Central Europe. However, a commercial-financial dichotomy emerged. Because the export-oriented manufacturing industries of Britain and Czechoslovakia were set to compete with each other, virtually none of the British achievement in Anglo-Czech banking relations could be translated into trading advantages. The Anglo-Czechoslovak Bank would have been hurt if trade had been diverted to rival British manufacturers and merchants from the Škoda works or the sugar refineries of Czechoslovakia, which kept valuable accounts with the bank. The party political connections of the Anglo-Czechoslovak Bank in Prague were exploited by British bankers and diplomats through Norman's interventions, but even this leverage could barely be applied beyond obtaining Czechoslovakia's co-operation in the Hungarian reconstruction scheme in 1923–24.

With regard to Poland, because the acute political controversies surrounding the territorial settlement and the ongoing crisis in the economy and finances of the country were simultaneous, it is more difficult than in

the cases of Hungary and Czechoslovakia to track the ways used by the Bank of England and the Treasury as well as by more traditional diplomats to exert their influence. As Polish fears that Britain condoned territorial revision in the east were not unfounded, their objections to financial dependency on London involved questions far beyond pure pride. They perceived acceptance of the British schemes as an act of joining a club overshadowed by the Bank of England and the German Reichsbank, determined to control the weaker states of East-Central Europe to the exclusion of the French. At the same time, no amount of financial pressure could have brought an increase in British political influence in Poland, if by such influence the British hoped to change the status quo.

When one looks comparatively at the relations of the Bank of England with the three Central European countries, Hungary appeared as the one ally for whom it was willing to provide the funds requested, however complicated the transaction might be. While finding ways of working with them, Norman never showed the same interest or sympathy towards the Czechs. This was partly due to the success of the Czechs in putting their own financial house in order, but it was also due to an undercurrent of ideological distaste which coloured Norman's talks with the Czech leaders, who were mainly socialists and who had declared their independence from the Austro-Hungarian Empire for whose coherence Norman always retained a nostalgic respect. In the Polish case, Norman was initially prepared to help even in very difficult circumstances, but Polish resistance to the League control scheme made co-operation impossible. The Hungarians had little choice but to allow a degree of foreign tutelage over their financial affairs; the Czechs, who did not require a complex loan construction for their essential recovery, opted for a judiciously limited loans policy; while the Poles, who were in the greatest need of financial assistance, rejected any subordination, ultimately preferring an American-sponsored scheme to what Norman could offer. The difficulties in financial relations between Britain, on the one hand, and Czechoslovakia and Poland on the other hand, reinforced the Foreign Office's propensity to dissociate itself from the interests of these countries as far as possible.

Referring to the enthusiasm with which they emulated the greed of the Western Entente powers at the Peace Conference, James Headlam-

Morley called the victorious successor states 'jackals that follow[ed] the example of the lions.'² The comparison can also be applied to their behaviour in the post-war period. Even after the signature of the peace treaties, like their Western counterparts, the victorious Central Europeans squabbled among each other and tried to keep their former enemies down. Even if, as Clemenceau had said, 'at least half a century would be needed for the treaties to enter into the bloodstream [...] of the European conscience,'³ the British were inclined to entertain hopes of counteracting the divisive effects of the peace treaties. It proved, however, impossible through financial influence alone to bring about the fulfilment of these hopes. The policy of Britain, the most potent European power in the vacuum of the interwar years, in spite of the best efforts of a select few politicians and financial experts, achieved little in terms of lasting regional consolidation and pacification in Central Europe. The British never really developed a regional strategy and much of their policy in the post-war period had as much to do with the rivalry with France as with their concern for the Central European states themselves. Following the temporary political stabilisation at Locarno, British interest in the region could only be further diminished.

NOTES

- 1 Fry, *British Revisionism*, pp. 573, 575.
- 2 Peace Settlement memoranda, Reparation. From an unpublished chapter of a planned history of the Peace Conference, 27 June 1922, HDLM ACC 800/20.
- 3 Antoine Marès, 'La vision française de l'Europe centrale, d'un prisme à l'autre de XIXe au XXe siècle' in Gérard Beauprêtre, ed, *L'Europe Centrale: réalité, mythe, enjeu XVIIIe-XXe siècles* (Warsaw, 1981), p. 389, cited in Wandycz, *The Polish Question*, p. 335.

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